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Law Banking *and* Business

FINANCE EXCHANGE
CORPORATE ORGANIZATION

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EDITED BY
W. D. EATON
BANKER - JOURNALIST AND
FRANK H. WAGONER, LL.B.
ASSISTED BY NOTED SPECIALISTS



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SECTION 36.—COURTESY IN BANKING

Real human courtesy is one of the best and most active assets a bank can have. Courtesy is in a sense like credit, because it is intangible, but has all the value of money if it is of the right kind.

Not at all the formal article that usually appears where courtesy should be.

Human—the essence of it lies in that one word.

Eden Philpotts, in one of his novels, states a world-wide truth: "There was never a cricket that chirped in a hedge," he says, "that to itself was not the pivot of the universe."

Think that over, and when you have absorbed its significance, apply it in an intensified meaning to all the members of the human race. Then use it in your business—but use it from the heart, or it will not work.

Every customer of a bank has an intense interest in himself. Anything that reaches the inner seat of that interest will warm him up, will draw from him a current of appreciation and good will.

Every bank officer and employee, from the president to the doorman, should make it a first part of his duty to know his customers, not as depositors nor in a merely business way, but as self-centered human beings, every one of them with a form of mind, a character and a history (no matter how colorless) of his own.

Be honest with yourself in the way you take an interest in them. Be really interested, not merely on the surface.

Nothing betrays itself more quickly nor more unpleasantly than a false interest—one that merely seems to be sincere, but is not.

Study your customers as they come before you from day to day, or time to time. You will soon find it one of the most interesting studies in the world. You will like it. It will make your customers like you.

A teller need not come out from behind the grille to kiss a customer. But he can let the customer know that he likes or is glad to see him. His pleasant, "good morning" will have a wholesome effect.

A smile with the eyes or a friendly nod will do. A passing interest in a customer's health, a good wish, an inquiry about his family if there is illness, a touch of sympathy if there is trouble, a cheery word if an account is growing, not

because the bank wants the cash, but because the receiving teller is pleased to notice his prosperity; a little word of regret if the customer has had to stand in line for his turn at the window; a quiet but friendly suggestion if he knows the customer may be losing favor with the bank. These will attract business, and hold it.

Remember Names.—Make a point of knowing each customer's name and always call him by it, even if he does not show up for a few days, and then is in a hurry.

Don't be sharp with anybody, even a bore. You will waste no time by listening even to one who endeavors to bestow incoherence upon you, if you send him away with a feeling that you wanted to hear him out, but were prevented by something that had to be done at the moment. Have an understanding with your fellow-employees that will be useful and save your face in cases like that. They are rare—and even a too fluent talker has his good points. Remember these, and let him know you remember.

A Man's Strong Points.—Nothing pleases anyone more than the discovery that someone else appreciates his strong points—the points on which he prides himself.

Every customer has points like that. If you

honestly approve them, say so, but do not say too much. Only let him know you wish there were more men like him.

You need not go out of your way to find out what points in himself a man thinks most of. Be friendly, and he will be sure to tell you what they are.

See Everybody.—Never let a customer pass you without recognizing him. Say something even if it be no more than a weather observation; and call him by name.

Don't be afraid of making him think he is strong enough with the bank to ask favors his account would not justify. Every good banker knows how to deal with such requests, not only without offense, but in a way that makes the customer feel the banker doesn't like to say no, but has no other course.

Don't Be Cold.—It is a fact that the atmosphere of most banks is the reverse of inviting. Where an officer or employee is curt because he thinks that is the proper way to do bank business, he is chilling the customer; and no customer enjoys being chilled.

Nor does any customer, especially a new one, like the feeling that his appearance is viewed with suspicion, sometimes amounting to an impression of hostility.

The day of the old-fashioned, dignified banker—with a dignity that was not real, but official—has passed away.

The new dignity is not only in accord with real courtesy, but is heightened by it. The finest manners are those inspired by genuine interest, and are midway between aloof condescension and back-slapping familiarity.

Take down a book of Shakespeare and turn to the play of Hamlet, and read the advice Polonius gives to his son, Laertes. That speech is a compendium of worldly knowledge, world wisdom.

Let it dwell in your mind, and it will come out in your conduct.

Never permit yourself to be drawn into saying an ill thing about anyone, no matter whom. If you can't say a good word, say nothing—or change the subject.

If you will be honest with yourself, you never will pass snap judgment against any act. All you can see is the outward result of an inward spring that neither you nor anyone else ever can know.

Above all, remember that thing about the cricket in the hedge. If the truth were known, all of us are crickets.

You like to be appreciated. So do other

people. Don't forget, that in this lies a strong reason for applying the Golden Rule.

To all bank employees, this: That saying about bread cast on the waters is true. Make yourselves liked. By so doing you will make the customers like the bank. The men at the very top will begin to hear things in praise of this or that employee, and take notice.

Anyone who can make himself liked well enough to be praised is worth watching; and if the watching justifies the praise, promotion and a bigger salary are not far away. It means being lifted out of what might become a rut, and put in line for a career.

Every man worth calling a man is ambitious for a career. Self interest is just as much a part of him as it is of any other man, or any cricket; and in his realization of himself, he too is of pivotal importance, like the cricket.

He is justified in making the most of his chances; and one of the best and most pleasant ways of doing that is herein pointed out.

SECTION 37.—BANK ADVERTISING

For years the banks were prone to look upon advertising as something beneath the dignity of a financial institution. They looked upon all forms of advertising as good enough for the merchant or the manufacturer, who had something to sell, some new goods the buying public should know about or a depleted stock that should be closed out to make room for new arrivals, but for the banks themselves—why it would be as out of place as for a high class law firm to advertise for new clients.

Early Limitations on Advertising.—While this hostile attitude towards advertising was held by the banks, about the only exceptions to the rule were the use of newspaper space to announce the names of the officers and directors and brief statements of assets and liabilities, designed to show that the particular bank was a safe one in which to carry an account. That was as far as a bank might properly go, according to the earlier views. Beyond that, dignity would suffer and it would tend to lower the high plane upon which banking was done and put it on a level with competitive lines of business.

Service as a Commodity.—The banks lost sight of the fact that while all they had to offer the

public was **service**, yet that service was a commodity and that it had to be sold, the same as a suit of clothes or a yard of cloth. With the growth of the country and the establishment of new banks in communities already served by old established institutions, there gradually crept into the banking business the sense of competition for business. It would no longer suffice to organize a bank and open it for business and then sit down and wait for depositors to come in and open accounts. Banks were primarily for service, so far as the public was concerned, and the service of a particular bank was therefore something that had to be sold.

Bank Calendars.—Breaking away from the prejudice against using newspaper space, the banks began to use advertising calendars for the home, office and store, as a means of keeping before the people of their community the fact that they did have a service for sale. The calendar was something that took up wall space that could not be purchased, and yet it cost the bank nothing but the trivial price of the calendar, and it would be seen and consulted throughout the year, and thus the veiled suggestion of that bank as a business convenience, waiting to be used, was carried over the full period of the year.

Distribution of Calendars.—Naturally, as one

bank in a community put out calendars, other banks took up the same medium, and were solicitous that their calendars should exceed in attractiveness the ones issued by the other banks. This brought about the use of finer and more artistic calendars, involving more expense, and hence the banks were more careful in their distribution. Soon the banks hit upon the scheme of sending out very neat announcements to a select list, stating that they were holding at the bank a very handsome calendar, which they would be pleased to deliver in person if the proposed recipient would call at the bank at his or her convenience. This gave the officers of the bank opportunity to become personally acquainted with prospective depositors, and proved most effective as a business developer.

Other Advertising Specialties.—Following the use of calendars came other advertising specialties, such as blotters, plain or with glazed tops, some issued monthly and sent to a definite mailing list, letter openers, paper weights, metal letter clips, lead pencils imprinted with the name of the bank. All these carried the same idea of keeping in mind constantly the name of the bank and the suggestion that it was a good bank in which to carry one's account. Various methods were used to distribute these favors, and all with

the idea of creating good will on the part of those who received these tokens to the end that they might become depositors.

Promoting Savings Accounts.—Formerly the bulk of the savings accounts were carried by the savings banks, organized for that purpose, and who did no regular commercial banking business. But now practically every commercial bank has its savings department, and thus comes into direct competition with the savings banks. The banks are finding that it pays to cultivate the savings habit of the people, and special efforts are being made to encourage the opening of these accounts by the children, as well as by the wage earners, for in time these accounts are likely to grow into business accounts, and banking connections once established, are not frequently changed. Hence we find that there are diversified methods of advertising employed to stimulate the savings departments.

Use of Dime Banks.—One of the most successful methods is by the distribution of dime banks. Some of the banks employ solicitors to call from house to house and office to office, seeking accounts in the savings departments through this means. One of the largest Chicago banks used a unique method of securing savings accounts by the dime bank method. A solicitor

would call and ask if the person addressed could and would save a dime a day. Upon being told that he could, the solicitor asked for the first dime, and put it in his pocket, inserting in the dime bank he handed the new depositor a metal piece that was stamped as redeemable for ten cents when the dime bank was returned to the bank to be emptied. Thus the only way to get credit for the dime given the solicitor was to continue to place a dime a day in the pocket bank and thus begin a savings account.

Home Banks to New Savings Depositors.—

The most common practice is to give a handsome home bank to savings depositors on the opening of an account with an initial deposit of one dollar, thus covering the cost of the home bank and with something to spare.

Christmas Clubs.—The universal desire for cash for Christmas presents has induced most banks to arrange to open Christmas Clubs, in which the depositors pay in certain fixed amounts and about the middle of December receive definitely fixed sums with which to do their Christmas shopping. This runs into a very heavy volume, and is but another device to encourage systematic savings.

Vacation Clubs.—In the larger cities where the vacation habit obtains more than in the

smaller communities, Vacation Clubs are organized on the same plan as the Christmas Clubs, the idea being that the deposit of a small amount per week will, by the beginning of the vacation season, provide sufficient funds to pay for the depositor's vacation.

Educational Funds.—Leaving the attempts on the part of the banks to secure accounts from the younger members of the community, many banks reach out for the fathers and mothers and try to secure regular deposits in funds that they call the Education Fund. This makes a very strong appeal to parents who have not had the advantages of a thorough education themselves, but covet such for their children. Under this plan, a certain sum per week, for a given number of years, provides enough to send a boy or girl through college or some other higher institution of learning, and is a most commendable enterprise.

Home Building Funds.—Of more recent years, especially since the shortage of homes has become so acute, the banks have organized Home Building or Home Owning Funds, into which are paid fixed sums weekly or monthly, and when they have amounted to certain totals, then they are available either for building or the purchase of a home already built. In many of these plans a provision is made for straight mortgage loans in

a certain ratio to the amount of the accumulated fund, to supplement the amount saved in order to complete either the building or purchase of the home.

Supplemental Space Advertising.—All of these various phases of the banking business owe their value and importance to the publicity that is given to them by the banks themselves. Therefore the banks are becoming extensive advertisers in featuring these services to the public through the medium of the daily press. It is all based on the fact that the banks have these manifold kinds of service to render the members of their community and they have come to see that the same medium that sells other commodities will sell theirs—Service.

Service to Business Concerns.—Just as the banks are advertising their varied forms of service to the individual members of the community, so they are advertising the phases of their service that appeal to the business concerns, whose accounts run into large volume. The banks are advertising that they welcome the opportunity to discuss any phase of the financial affairs of depositors and to give counsel and advice as to how, particularly in times of stress, disaster may be avoided or how in good times business may safely be expanded. They advertise their collection fa-

cilities through their correspondent banks in other cities; their investment facilities through their own bond departments which have on hand gilt edged securities for sale.

Service as Executors and Trustees.—Here is another class of service that the banks are largely featuring in their current advertising. They call attention to the greater advantages afforded by naming them as executor or trustee, offering in such connection, the services of their own attorneys.

Publicity as a Confidence Builder.—No line of business is so absolutely and completely dependent upon having and enjoying the confidence of the public as is that of banking. Suspicion or rumor will cause untold damage. A run on a bank is the easiest thing to start and the hardest to stop. Once started, even if promptly checked, the timid will no longer do business with it. In all things connected with the conduct of the business of a bank, publicity is the greatest builder of confidence as well as of business itself.

The banks that advertise their varied forms of service are the banks that serve their communities best.

SECTION 38.—COMPOUND BANK INTEREST

Leading banks that have savings departments, and the foremost banks given wholly to savings, have within recent years instituted a system by which depositors may get compound interest. The process is simple, and mutually beneficial to the banks and the savers.

It consists in nothing more intricate than standing aside and letting the money grow.

A depositor arranges with his savings bank to have his account credited with the savings-interest on the dates of interest payment, instead of drawing the interest for immediate use. Thus the interest becomes an addition to the deposit, and begins to draw interest from that date. This arrangement, being continued, operates like a rolling snowball and if allowed to go on will automatically double the sum originally deposited.

Compound interest is interest paid on interest. It is a cumulative operation and is the surest (which is better than the illusory quickest) way of getting "rich." Formerly it was abused and classed under the heads and drew the penalties

of usury. Now and in this way, it is legitimate.

Savings banks must depend for their profits upon the use of money deposited with them, at a rate in excess of the interest they pay the depositors. The depositors couldn't earn those higher rates, because separate deposits are too small for use in the channels where higher interest rates flow, but the bank can follow those channels by the use of massed deposits. In this they are rigorously limited by law to such uses as involve no risk of loss. By permitting the addition of interest to a capital sum deposited they are actually paying it to the depositors in the

Time in Which Money Doubles

<i>Rate Per Cent</i>	<i>Simple Interest</i>	<i>Compound Interest</i>
2	50 years	35 years 1 day
2½	40 years	28 years 26 days
3	33 years 4 months	23 years 164 days
3½	28 years 208 days	20 years 54 days
4	25 years	17 years 246 days
4½	22 years 81 days	15 years 273 days
5	20 years	14 years 75 days
6	16 years 8 months	11 years 327 days
7	14 years 104 days	10 years 89 days
8	12½ years	9 years 2 days
9	11 years 40 days	8 years 16 days
10	10 years	7 years 100 days

form of a credit which is just as tangible as actual cash, and at the same time increasing by that credit the aggregate of credit upon which they themselves can lawfully earn a profit, and by so doing reinsure the safety of their patrons.

The table on page 762 illustrates the time in which money doubles at a given rate.

FILING TRUST DOCUMENTS

Gladys M. Halsey, an expert in filing systems, who has charge of the files of the Bankers' Trust Company of New York, thus describes the method followed by that institution in card indices of trust documents:

In every trust company there are many documents which must be filed daily. It may be of interest to others who have filing problems to know how the Bankers' Trust Company takes care of the documents in its trust department.

To the file clerk are given all documents relating to corporate trusts, personal trusts and the safe keeping department.

At the time a new trust account is opened, the file clerk first makes out a card, writing on it the name and the relation of the trust company, giving the account a file number. This card is filed alphabetically.

E 58B

Customer United States Railroad Company.

Address

Relation of Trust Company	Document File No.
Trustee under First Mortgage dated Sept. 1, 19—. Securing issue \$20,- 000,000 3 Year 5% Gold Bonds.	300

The documents before filing are given to a man in the department who dictates to a stenographer a brief analysis of the context of each document. This analysis is typed on gummed paper and given to the file clerk, who binds the document with a manuscript cover and pastes the briefing on the back, first carefully comparing it with the papers to insure accuracy. This is then entered in the document record book, which is numbered, giving the next number to the document and also the file number. The document then goes to the department, where it is entered in what is known as the "History of Trust," which constitutes a record of everything done about each account. It is only when it is stamped "Entered" that the document may at last be filed.

The document vault is filled with legal size

cabinets. In these cabinets are filed numerically by the file number the document folders or envelopes. On these folders is pasted a label with the title of the account together with the file number. In the envelope itself the documents are arranged by subject—corporate documents, general documents, bond or note issue, cremations, proxies, releases, etc. Under the head of corporate documents are kept all those relating to the initial stages of the trust account—that is, the by-laws, articles of incorporation, resolutions authorizing mortgages, etc. These corporate documents are all marked by one document number at the opening of the trust account. The same procedure is followed in the case of monthly statements, certificates of equipment, insurance schedules and other certificates which come through periodically. As the documents each relate to the same subject, it has been found feasible to give the same number each time.

There are always some documents which the men must use at certain dates. The file clerk makes it her first duty each morning to refer to a card tickler system which records the documents wanted for that day.

Whenever any document is taken out of the files a paper headed "Document Out on File" is put in place of it and a record of where it was

sent, by whom and when, is made by the file clerk.

Copies of mortgages, trust agreements and similar papers which cover the general business of the trust department are also kept in alphabetical arrangement in the files of the department. Duplicates are secured whenever possible and these are distributed to customers upon request.

Documents of the personal trust and safe keeping departments are filed in the same manner as the corporate documents.

SECTION 39.—GOLD AND SILVER— OTHER METALS

As nearly as may be determined after careful research and estimate, gold to the amount of nearly \$11,000,000,000 has been produced within the limits of history as we know it. About \$2,500,000,000 has been used in the arts, or lost through wear and tear of coins; somewhere around \$1,500,000,000 has been exported to Asia and hoarded, and about \$2,000,000,000 has been lost in ways now unknown. Thus it comes about that the gold now used in the form of money amounts to just about \$6,000,000,000.

According to accepted estimates the production of silver from historic times down, totals somewhere over \$12,000,000,000, of which about \$3,500,000,000 is in the form of coin. The arts have called for almost \$2,000,000,000 more, and about \$2,000,000,000 have been absorbed by India and China. Silver unaccounted for amounts therefore to about \$5,000,000,000.

The following historical and statistical matter concerning gold and silver, their production and their uses, is taken from a book compiled by Earl

D. Howard and Prof. Joseph French Johnson, which has been quoted on another subject in a previous volume of this set:

“In ancient times there was considerable production of the precious metals, mostly from the mines of southern Europe. These sources were worked by slave labor almost exclusively, and the productions found their way into great hoards which served no valuable purpose other than to provide a visible evidence of the wealth and power of the owner. Only a small part of the existing stock of precious metals was used as a circulating medium, and of course at that time its use as a basis of credit was entirely unknown.

“Gold and silver were regarded as an end, not as a means; as treasure, not money. They were distributed, not by trade, but by war. It was the hand of the conqueror that stripped them from palaces and temples. If they were taken from the store of monarchs, it was not to freight the caravans of commerce, but to fill the chariots and mule carts, to load the sumpter horses or the camel trains of a victorious army.

“After the fall of the Roman Empire the mines fell into the hands of the barbarians in their southern migrations, and ceased to be worked. From that time on until the discovery of America the quantity of precious metals in

Europe decreased rather than increased. Large quantities were used in decorating the churches. There was probably even less used for monetary purposes than the limited amount which had been so used in the ancient times.

“The Feudal Period.—Under the feudal system society was organized on a basis which required very little exchange of products, and most of such exchange as existed was done on a barter basis. Taxes and payments to the lord of the manor were made in produce. The royal court was maintained not from money taxes collected, but from the produce of the crown lands which the king received as the lord of the manor. Wars were conducted without the use of money; the soldiers were equipped from their own resources, and were sustained from the forage of the country traversed in campaigns.

“Discovery of America.—One of the most important effects of the discovery of America on European economic conditions arose from the quantities of silver which began to flow in an increasing stream from the Spanish colonies to Spain and from thence to be disbursed throughout Europe. The eager quest of the early explorers for the precious metals can be better understood when we know that the value of silver was many times its value today, and that the

precious metals were about the only property which could be profitably transported during those times, when transportation was so difficult and expensive.

“When Columbus and the explorers who followed him set out on their quest for undiscovered countries, it was largely with the hope of finding gold and silver. Gold was found at the outset in Hispaniola, the first island acquired by Columbus for Spain, but even with the forced labor of the natives it was obtained in only limited quantities. The quest for gold, at first disappointing, was more amply rewarded after the conquest of Mexico by Cortez, about 1520, and of Peru by Pizarro, about 1532. The treasures which had been accumulated by many years of mining by the simple but partly civilized peoples of these countries were poured into Europe and were the subject of most fabulous estimates as to their amounts. Thus, the ransom of the Inca of Peru extorted by Pizarro—a sum equal to about \$4,000,000 gold (of our money) and an additional sum in silver—was a large amount to be distributed among a small body of adventurers, but did not add greatly to the monetary resources of the world. It was the discovery of rich silver deposits of the mountain of Potosi, in Peru, about 1545, which revealed the New World as an im-

portant producer of the precious metals and especially of silver. Up to this date (1493-1545) the production of gold preponderated in the proportion of about \$220,000,000 to \$144,000,000 in silver, but from that discovery, followed by many others, began what Leroy-Beaulieu designates 'the first age of silver.' It was an age which lasted nearly three centuries, terminating about 1840, and which brought into the commercial world nearly \$6,000,000,000 of silver against less than half as much gold.

"Effect of Silver from America.—The effect of American silver upon the economic conditions of Europe was revolutionary. Payments from tenants to landlords for the use of the soil had been made either in produce or in labor, a system which reduced the tenant to a condition not far removed from that of the slave. Commerce was so limited that every community had to be practically self-supporting, and its consumption was limited to the articles which could be produced in the immediate vicinity. The lack of commerce made it possible for famine to exist in one county while great plenty existed in a neighboring county.

"The transmission from payment in kind to money payments, which soon profoundly altered the relations between the lords and tenants, mak-

ing the latter much more independent, was not so much due to the greater abundance of money as to the effect produced by the new silver on prices of all commodities. The Spaniards to whom this new silver first came, appeared in the markets of Europe as purchasers of goods, thus creating a steady demand for export. The rise of prices and the steady market gave a stimulus to industry. Originally money had been hoarded as a protection against misfortune. This was justified by the conditions of the time, which made it difficult to accumulate any other form of property. The land was not bought and sold as today, but was considered permanent in the possession of families who held it under various forms of limited title from the king or lord.

“There was very little opportunity to acquire productive capital. What little invested capital there was in the form of flour mills and the like was held by the lords under the same conditions as the land—practically. Money was therefore about the only form of property in which savings could be invested. There was no incentive to circulate money except when misfortune forced the possessor to release it for the necessities of life, or when it was extorted by force.

“Increased Circulation of Money.—The rise of prices, accompanied as it was by the growth of

commerce and by the commutation of money for labor dues, had the effect of putting money into circulation. As opportunities increased for the investment of funds in some form of productive property, the tendency to hold money grew less and less, especially as the increase in the value of goods and the decline in the value of money made the latter very unprofitable and a losing investment.

“It is doubtful whether the new silver which flowed into Europe, when measured in terms of value, increased the amount of money. An ounce of silver was worth so much less that the increased quantity had little more power to perform money work than the smaller quantity had before. The effect was produced by the change of prices, and by the consequent increase in the circulating power of the stock of silver already existing in Europe.

“**Discovery of Gold in California.**—The quantity of gold and silver in the world was subjected to another great change in the middle of the nineteenth century. On January 28, 1848, a workman named Marshall, while erecting a saw-mill on the American fork of the Sacramento River, discovered gold in the mill race; and within three years from that time California had not only become a part of the United States (it

had previously belonged to Mexico), but had also been admitted as a state under the compromise of 1850. Gold had been discovered in Australia in 1823, but mining had been discouraged by the government. Under the stimulus of the California gold discoveries, the government changed its attitude, and the rush of gold seekers to Australia in the early eighteen-fifties was almost as great as that to California. As a result of these discoveries the annual average production of gold increased from about \$16,000,000 before 1850 to nearly \$130,000,000 between 1850 and 1870. The effect upon prices may be seen in the price tables of that period. Since 1870 it has about quadrupled.

“Effect of California Gold.—Owing to the fact that the monetary circulation in this country during that period consisted almost entirely of bank notes based on specie reserve, the effect of the new gold was not so pronounced as it would have been had the circulation consisted entirely of specie. The gold which was not required for circulation in California and which was not exported was used to strengthen the bank reserves and to provide for the increased circulation required by expanding industries. The tendency of the sudden addition of so large a quantity of gold to the world’s supply would have been to

raise prices very sharply, had it not been diverted by these considerations.

“After 1870 the annual production of gold declined steadily for twenty years, and had more serious economic effects than the increase in the previous twenty years had had. The declining prices which it occasioned gave rise to the silver question which agitated the world for more than ten years.

“South African Gold.—The discovery of gold in South Africa in 1889 and in the Klondike region a few years later brought another period of increased gold production, and a rise in prices. These later discoveries, combined with the invention of new processes for the extraction of gold, have given the science of money an entirely new turn within the last ten years.

“Origin of Gold.—The specific gravity of gold is very high and is exceeded by very few metals, most of which are exceedingly scarce and valuable. The theory is that when the earth was thrown off from the sun it was in a gaseous state. The gradual cooling of the mass and the dispersion of heat permitted the formation of liquids and finally of solids. The first solids to be formed were the metals of the highest specific gravity, which naturally sank to the center of the earth through the gaseous and liquid medium by the

force of gravity. As the cooling process continued and the earth took solid form, there were tremendous upheavals of the surface. The enormous heat at the center formed gases which in escaping threw up to the surface molten matter containing gold in combination with other elements. This accounts for the presence of gold in mountainous localities where the upheavals have been severe, and give rise to the theory that at the center of the earth gold exists in large quantities.

“Sources of Gold.—Until within recent years practically all the gold produced was taken from gravel deposits. The free gold had been washed out of the rock by erosion and carried down in the streams, and because of its great weight had sunk to the bottom of the stream not far from the place of its origin. These small particles of free gold were separated from the mass of sand and gravel by the simple process of “panning.” The mass was mixed with water and gradually shaken until the sand had been washed away, leaving only the heavier material behind. The fine particles of gold were separated from the gravel by means of quicksilver, for which it has a very great affinity. The gold was then separated from the quicksilver by filtering the latter through heavy skins.”

OTHER METALS

Leaving aside iron, the basic metal of industry, and the metals used in combination with it to produce the various forms of steel, there remain in the wake of gold and silver other metals, two of which are used in coinage to some extent—copper and nickel.

Copper, slightly alloyed for hardening purposes, is coined in one cent pieces only. But next to iron it is the most important of all metals in many and widely diversified arts and industries.

Copper is indispensable to electric industries. Next to silver, it has highest conductivity—somewhat over 90, taking silver at 100. It is the most compliant of all metals, blending with many others, and meeting more useful requirements than any other. In theory it is not a noble metal; in utility it is one of the noblest, if nobility may be conferred in terms of service.

Its history began in the ages back of our term of history. Homer tells how Hebe

“to the chariot rolled the brazen wheels,
And joined them to the smooth steel axle,”

before the walls of Troy—and brass then was a blend of copper with tin, and so remains; a familiar commodity.

The oldest copper mine is the Rio Tinto, in

Spain, which has been operated continuously two thousand years. It furnished the Romans with most of their "cuprum" supplies. Its copper is in a pure state, ready to be worked.

The greatest mine of virgin copper is the group known as the Calumet and Hecla, in upper Michigan. The metal was discovered there by Prof. Louis Agassiz, the naturalist, incidentally to a scientific investigation wholly foreign to mining. Prof. Agassiz declined to have anything to do with commercializing the mines, because (he said it, himself) he "had no time to make money." The company set aside for him a block of its stock to which he gave no attention, being busy; but it made his family very rich.

Copper is widely distributed in nature, but the western half of North America is peculiarly rich in it. The Bonanza Circle around Bisbee, Arizona, has a steady and enormous output. So has the region around Jerome, near Prescott, in the same state. The United Verde mines, opened by the late Senator Clark, are there. The Anaconda group near Butte, Montana, has produced heavily and steadily since the late eighteen-seventies.

Almost 60 per cent of the world's annual supply of copper is furnished by the United States.

Nearly all the copper ores of the mountain

states are carbonates, oxides, or sulphides, but most of them carry considerable gold and silver and nearly all carry their own flux of lead and silicates, so that they yield readily to treatment.

Copper moves more money every year than any other staple metal, aside from iron.

Nickel is a reddish white metal, very hard, difficult to purify, highly magnetic, ductile and malleable when purified. Cobalt is an ore of nickel-silver. Canada has the most important nickel and cobalt mines.

In current coins, nickel appears as a five-cent piece, originally issued in substitution for the old silver half-dime, which was too small for handling.

Tin, though of intimate daily use, is not very widely distributed, but has been an important quantity in trade, dating from the days before Phoenicia instituted a merchant marine. The Phoenician merchant sailors traded with Wales and Ireland for the tin of those countries, and through the relationship thus established made marriages there, and founded a strain that is visible in their present populations. The oldest tin mines are in Wales. Their workings in some places extend far out under the sea.

Very few articles are made of tin, but millions are made of other metals surfaced with tin.

Lead is a soft, heavy metal, widely distributed in nature, often found in its nearest pure form, known as galena, but more frequently in combination with silver or associated with zinc. The bulk of the world's supply is furnished by the United States.

Zinc is not found as an isolated metal, but always in ores. In its pure state it is hard, but it softens freely at a temperature as low as 250 Fahrenheit, and may be rolled or hammered into sheets or other forms desirable for handling. It is the positive element in voltaic batteries, being indispensable as the positive element in secondary batteries. Its commercial form is known as spelter.

The oldest zinc mines are in Flanders. The company owning them is called Le Veille Montaigne. They have been in active production several hundred years. Their lower working levels are nearly 4,000 feet below the surface.

Platinum, a metal more valuable than gold, is the heaviest of all known metals. It was first found at Choco, Peru, in 1741, and is comparatively rare, and most frequently associated in ores with other metals, known as platinoids. These are palladium, rhodium, iridium, osmium, and ruthenium, all rare and of great value in chemistry.

Platinum is exceedingly hard, ductile, malleable, tenacious, and difficult of fusion. It does not tarnish. In the commercial form it has the appearance of bright silver. It is used largely in jewelry, in electrical apparatus, and for other purposes in which it gives service not obtainable from any other metal.

Aluminium, commonly called aluminum, is the most widely diffused of all. In various compounds it forms one-twelfth of the earth's crust. Its most advantageous compound is with the feldspars, which decompose and form clay. The distinctive aluminium clay is called *beauxite*, and is found in quantities in various parts of North America. Aluminium is light, and does not oxidize. It can be separated from its compounds only by processes so costly that its commercial use was for a long time very limited. By improvement in electrolytic methods it is now being produced at a cost about equal with that of producing copper. It is used mostly in an alloy with copper called *aluminum bronze*, and with another called *aluminum silver*, which has the bright appearance of polished silver, but cannot be tarnished by gases.

Tungsten, which has been known since the latter part of the eighteenth century, came into world demand through the rapid advance in im-

proved steel processes during the last thirty or forty years. Its principal ore is scheelite, which formerly had slight value, but now commands a high price per unit of tungsten content. It is grey-white, nearly as hard as steel, brittle, and less fusible than manganese.

Manganese is another mineral necessary to produce certain kinds of steel. It occurs in ores that are called by its name, but never is found in the metallic state. It is hard, and difficult to fuse. It is neither expensive nor rare.

Molybdenum, in chemistry an element usually found in the ores of wulfenite, is a hard, silver-white metal, with a very high fusing point.

Wulfenite is a red tetragonal mineral consisting of protoxid of lead and molybdenic acid.

Vanadium looks like silver, but is extremely brittle. It does not oxidize in air or water.

Radium, in ultimate metallic form, has not yet been produced. The substance called radium is an oxide. It is obtained by intensive condensation of pitchblende ores, several tons of which are necessary to the production of three grains. The present supply of radium is under four ounces.

Uranium and Thorium have the same radioactive property, but radium exceeds either of them 1,500,000 times over. It was discovered by Mme. Curie at the Curie laboratory in Paris.

Mme. Curie named it for its power of emitting rays. It is probably the most valuable substance known to man, and its uses are not yet fully known.

One of its curious performances proved the transmutability of metals, the dream of ancient alchemists. A quantity of the gas of radium left standing for a time was found to have become a gas of helium, an element first discovered in the sun's atmosphere, but since found in a few rare minerals.

Antimony is a brittle bluish white element, sometimes found pure, but usually in alloy with other metals. Its peculiar characteristic is that it expands at the moment of solidifying, and this gives it value as a constituent of alloys not affected in bulk by heat or cold.

Other Metals.—There are many other metals of great cost and rarity, that are required in the most advanced work of the science of chemistry, but do not come within the category of metals as generally understood.

The importance of all these metals is so vast, and the production of and trade in them runs into figures so enormous, that special trading concerns and many banks, all strongly capitalized, have of late come into the field of finance, and are acquiring eminence in that field.

SECTION 40—THRIFT

The dictionary defines thrift as "frugality; good husbandry; economical management in regard to property; prosperity; success and advance in the acquisition of property; increase of worldly goods; gain; luck; fortune; the condition of one who thrives." Its synonyms are given as "economy; profit; gain; prosperity."

Thirty-five words. All could have been summed up in four: A savings bank account.

It is an axiom that a savings account is the surest agency of thrift, since it implants and fosters a saving habit. It tends to cut down older habits of unnecessary spending. As soon as anyone has money in the bank, he begins to feel a new responsibility to himself, his family and the well being of the public, respect for law, and love of order. From the day he makes the first deposit, he is a better citizen in every way. He owns something that gives him a direct and jealous interest in his town and his country. He is a better patriot.

"Money breeds money." Nobody knows that better than a savings bank depositor. It will mul-

tiply of its own accord. When its increase has reached a point where it has purchasing power for a house and lot, or a bond, it is simply turned over to another process of increase, the increment finding its way back to the bank.

When **Liberty Bonds** were first offered, this principle had an unexpected demonstration. In the ten years or so before the United States joined the war, savings bank deposits had averaged an annual growth of over \$150,000,000. Roughly, this means that the average savings of the people were \$15 a year per capita of our whole population. There were about 20,000,000 savings bank depositors, whose average annual savings, thus represented, were not less than \$75 each. The first loan was largely taken by these depositors, for three reasons: first, they had money, therefore they were part owners of the country, and they were the first to realize that fact and to come forward with the best help they could give the country in protecting their part ownership; second, it was the first time the average savings depositor had a chance to become a government bondholder—not “bloated” so you could notice it, but a coupon-clipper (and once a coupon clipper always a coupon clipper, as everyone knows); third (and least), the bond interest rate was slightly better than the bank rate.

Savings bankers showed their quality at this juncture. The old fashioned banker would have been frightened at what to him would have looked like a wholesale and ruinous withdrawal of deposits. Not so the modern banker. He saw what it meant to him as well as to the nation, and got behind the movement, and speeded it up.

The inflow of fresh money dwindled, and old money began to flow out at the paying cage, mostly to pay for bonds. Bond cages had to be put in. For a little while, in some banks, extra help had to be taken on and their salaries paid out of profit and loss. But see what followed:

Most depositors began to bring in fresh savings. Faces looked into the bond cages that never before had looked through any grille in any bank, and their owners, having bought bonds, found out some of the advantages of savings accounts, and became depositors instead of private hoarders. What an old fashioned banker would have regarded as a sacrifice threatening ruin, the modern banker turned into a splendid asset of new business.

Savings were stimulated when savings depositors became bondholders. It was the beginning of what within a year became a clearly defined habit of making investments, which the banks handled. This habit, like any other habit of

thrift, once established, is certain to become permanently fixed.

After the war, when war bond issues in small denominations will no longer be made by the government, these same depositors will be eager inquirers for safe small bonds of municipalities, sound corporations, public utilities and the like. Customers who formerly were depositors and nothing else, will have become Depositors and Investors. The thrift of the nation will be increased and fortified as never it was before.

Rainy day savings will not disappear. They will take on a new and better form. Depositors will increase in numbers, the business of the banks, through shaping their investments, will take on new and much larger proportions.

That we are a thrifty nation in a degree and to an extent greater than the most optimistic could have dreamed, is shown by the hard fact that the Liberty Bond flotations have freely drawn an average of \$175 from buyers, all of it a money surplus over actual personal needs—and most of it from savings banks depositors. This can be counted upon annually so long as the war continues.

Considering these things, James H. Collins, one of the foremost and safest of American economists, wrote in *The Saturday Evening Post*:

“Where did our money go in those dim years of the past before June, 1917?

“And where does this apparent new wealth come from so magically?

“Under the head of net savings in pre-war days we find three leading items: The largest was life insurance, running to about eight hundred million dollars yearly for premiums, or roughly eight dollars per capita. The second was building-and-loan payments, five hundred million dollars yearly, or five dollars per capita. Third came our savings banks.

“The average per capita production of wealth in the United States before we got into the war was four hundred dollars yearly. The visible savings per capita were fifteen dollars yearly. But suddenly, in a crisis, we find \$175 per capita of visible savings. Some of this is due to increased production of wealth. But the greater part simply represents savings that were invisible until Liberty Bonds, War Savings Stamps and taxation brought them out into the light of day. Of course, our savings-bank deposits, building-and-loan payments and life-insurance premiums represent but a small fraction of the money that Americans put aside. Every other family in the country has a savings-bank account, every sixth family belongs to a building-and-loan association,

and the number of life-insurance policies and memberships in fraternal-insurance orders indicate that every other person in the country has some form of protection. But Americans have been saving billions of dollars by direct investments in business enterprises, homes, real estate, securities and the like. The difference between fifteen and a hundred and seventy-five dollars simply indicates invisible savings made visible—that until this big job is done, and done right, we will not build that new wing on the house or put money into city improvements which are not a prime necessity, new public utilities, real-estate development or other enterprises not needed to help the war along. We will forego speculation and wildcat promotions. We will stop trying to keep up with the Joneses and limit ourselves in clothing, food, fuel, light, travel, recreation.

“Twenty million bondholders created within a year means that every family in the United States has been canvassed in three great campaigns and shown how to save money systematically and also invest it safely. Twenty million personal budgets have been rearranged so that visible savings emerge from invisible. This does for the budget planner precisely what a sensible cost system does for the business man or farmer—brings earnings and expenses into the open,

where they can be seen, and enables him to eliminate waste and put his fingers on profits.

"All the signs of the times point to such expansion of our investments and trade as an outcome of the Liberty Bond habit. That is what we are going to get out of war thrift. Many of the bond buyers now making their monthly payments may fall back into thriftless habits again. But many more will persist in systematic saving, and the hundreds of millions of dollars thereby mobilized for investment, massed in the same solid banking institutions that have handled Liberty Loan details, can be diverted to constructive foreign investment and development.

"A good thing for the thrifty—a good thing for the banker—a good thing for nations that need capital—a good thing for our industries, trade and ships—a good thing all round."

SECTION 41.—COLLECTION OF COMMERCIAL PAPER. “NEGOTIABLE INSTRUMENTS LAW”

Bank Liable to Depositor.—In making collections of drafts, notes, checks, and other negotiable instruments, the bank to which they are entrusted for collection assumes certain duties and obligations, and for its failure properly to discharge the same it is liable to the depositor. The collecting bank becomes the agent for the depositor and is bound to carry out special instructions if given, and if no special instructions are given it is bound to exercise reasonable care and diligence.

Bank's Duties in Collecting.—The duties assumed by the collecting bank include the proper presentation of the paper for acceptance or payment, and if dishonored, of giving due notice thereof, at least to its endorser, and if protest is necessary, of seeing that protest is properly made. In carrying out its duties, in the absence of special instructions, it may act through sub-agents. In some jurisdictions the collecting bank will be held responsible for any failure of its sub-agent

to perform its full duty, but in other jurisdictions, if the collecting bank is found to have exercised due care in the selection of its sub-agent, it will not be responsible for the conduct of the sub-agent.

In the Case of Checks it may happen that the collecting bank and its sub-agents may fully comply with the rules of the law merchant regulating the time within which checks may be transmitted through intermediate agents to the place of payment so far as such rules of law affect the duty of the collecting bank towards the depositor, and yet fail to make presentation within the time given by the law merchant to the holders of the checks to present the same for payment so as to bind the maker of the check or a prior endorser; for as against the maker and prior endorsers the holder should see that it is presented for payment not later than the day following its receipt, or, if it be payable in another place, that it be started on its direct journey to such place not later than the day following its receipt.

In Case of Promissory Notes or Drafts.—In the case of promissory notes or drafts payable upon a fixed date, it is the duty of the bank to have such instruments at the place of payment when due. The collecting bank will ordinarily be liable

for failure to use due diligence in presenting paper for acceptance or payment; for not giving due notice of dishonor, or omitting to make protest when required; for departing from instructions and recognized customs and for taking an irregular acceptance. Usually a bank will be liable if it accept anything except money in payment, although in cases of emergency it may be justified in accepting property or other security. In the absence of instructions, bills of lading and other collateral attached to time drafts may be surrendered on the acceptance of the draft, but in case of sight drafts payment should always be required before giving up such paper.

Impossible to Cover All Cases.—The situations that may arise during the life of a particular piece of commercial paper are so varied, and frequently so intricate, that no summary statement can cover all possible cases; but as a rule collecting banks must perform their duties as agents with fidelity and intelligence.

NEGOTIABLE INSTRUMENTS LAW

Uniformity of the Law.—Diversified laws in the various states of the Union, particularly in regards to finance and the laws relating to checks, notes, drafts and other instruments for the payment of money worked such confusion and hard-

ship that the states, beginning in 1897, adopted, one after the other, what is known as the "Negotiable Instruments Law," until all but one have written it upon their statute books. The solitary exception is the State of Georgia, but its law embodies practically all of the provisions of the uniform law. The law has also been extended to Alaska, District of Columbia, Hawaii and the Philippine Islands.

Scope of the Law.—The law as adopted codifies the law only so far as it pertains to negotiable, as distinguished from non-negotiable instruments. It is applicable only to instruments executed after the enactment of the statute, but it expressly repeals all conflicting statutes except insofar as expressly provided to the contrary by certain statutes not repealed, such a proviso being incorporated in some of the states, but not in the majority. It applies, so far as applicable, to bills of exchange, checks and promissory notes. It is conclusive so far as it goes, and for the most part is inclusive.

Instruments That Are Negotiable.—In order to be negotiable, the act expressly provides that the instrument must be in writing, signed by the maker or drawer; contain an unconditional promise or order to pay a sum certain in money; be

payable on demand or at a fixed or determinable future time; be payable to order or to bearer; and where addressed to a drawee, he must be named or otherwise indicated therein with reasonable certainty. It provides in detail as to when the sum payable is a sum certain, when the order or promise is unconditional, when the instrument is payable at a determinable future time, and enumerates certain exceptions to the rule that the instrument is not negotiable if it contains an order or promise to do any act in addition to the payment of money. Negotiability is not affected by the want of a date, failure to specify a consideration, failure to specify the place where it is drawn or is made payable, the fact that it has a seal, or the fact that it designates a particular kind of current money in which payment is to be made. It also expressly defines when an instrument is payable on demand, when payable to order, and when payable to bearer.

Date.—The instrument need not be dated to be negotiable, but where dated, the date is *prima facie* the true date. Antedating or postdating does not invalidate the instrument unless done for an illegal or fraudulent purpose. If the date is omitted, any holder may insert the true date. Blanks in an instrument may be filled up by the person in possession thereof, and even where not

filled, in accordance with the authority given, a bona fide holder in due course may recover.

Delivery.—Delivery is necessary to make a binding contract, but a valid delivery will be presumed where the instrument is in the hands of a holder in due course. The instrument may be good as an instrument for the payment of money even though the provision for **attorney's fees** may be non-enforceable under some other provisions of local law.

Rules of Construction.—Where in negotiable instruments there is a variation as between figures and written words naming amounts, the written words govern. Interest begins to run from the date of the instrument unless otherwise specified therein. Where the instrument is undated, it is considered as being dated as at the time it was issued. As in the case of amounts, written provisions control printed ones. If an instrument is ambiguous as to whether it be a bill or a note, the holder may treat it as either. If it is not clear in what capacity a person intended to sign, he is deemed an indorser. The words "I promise to pay," where the instrument is signed by two or more, make them jointly and severally liable.

Indorser Before Delivery.—A person placing his signature upon an instrument otherwise than

as the maker, drawer or acceptor is deemed an indorser and liable as such unless a contrary intention is clearly indicated by appropriate words. This clears up a point regarding which there has been great conflict in the states, owing to the fact that many hold such an endorser liable as a maker.

Consideration.—A valuable consideration is presumed. An antecedent or pre-existing debt is a sufficient consideration, and one having a lien on the instrument is deemed a holder for value. A person who signs a negotiable instrument without receiving any consideration for the purpose of lending his name to some other party, is liable to a holder for value although such holder knew him to be only an **accommodation party**.

Acceptance.—Acceptance is necessary to charge the drawee of a bill of exchange. Presentment for acceptance, unless excused, is necessary in case of sight bills to fix their maturity; where it is stipulated for by the terms of the bills; and where the bill is payable elsewhere than at the residence or place of business of the drawee. Acceptance must be in writing and signed by the drawee (this changes the former law). The drawee is allowed twenty-four hours to decide whether he will accept or not. The presentment may be on any day on which presentment for

payment may be made, and may be made before noon on Saturday (this last provision being omitted in Wisconsin).

Negotiation.—The instrument may be negotiated by delivery if payable to bearer or by endorsement, if payable to order. The indorsement must be written on the instrument or on a paper attached thereto, and may be either the mere signature of the indorser, without additional words, or may be an indorsement to a particular person, or may be qualified, as by adding the words “without recourse,” or may be conditional. All payees must indorse unless they are partners or one has authority to act for the other. If the name of the payee is wrongly designated or spelled, he may indorse by such name and may add his proper signature. The endorsement is presumed, where not dated, to have been made before the instrument was due, and to have been made at the place where the instrument is dated. The holder may strike out unnecessary indorsements.

Protest.—Protest is not required except in case of foreign bills of exchange, which includes drafts drawn in a state other than where made payable. When necessary, it must be made on the day the instrument is dishonored. It is customary to have protest made in all cases of dis-

honor where there is an indorser, and by a notary public to facilitate proof.

Notice of Dishonor.—Notice of dishonor, unless the same be waived, must ordinarily be given to each drawer and endorser. It may be either written or oral, and delivered personally or by mail. Joint parties not partners must all be notified. If the person giving and the person to receive notice reside in the same place, notice must be given so that it will be received not later than the day following the day of maturity; while if they reside in different places, it must be mailed in time to go by mail the day following the day of maturity.

Time of Payment.—The time when payment is due is determined by excluding the day from which the time is to run and including the date of payment. When the day of maturity falls upon a Sunday or holiday, the instrument is payable on the next succeeding business day. In Massachusetts when the maturity falls on Saturday, Sunday or a holiday, the instrument is payable on the next succeeding business day which is not a Saturday. Instruments falling due on Saturday are to be presented for payment on the next succeeding business day, except that instruments payable on demand may, at the option of the holder, be presented for payment before

twelve o'clock noon on Saturday when that entire day is not a holiday. This provision is omitted in Arizona, Kentucky and Wisconsin as well as Vermont except as to the optional clause. In Colo. the provision applies to any day when any part of such day is a holiday. In Mass. failure to present for payment paper payable on demand, before Saturday noon, is not negligence.

Demand Before Suing the Maker.—As a general rule, demand before suing the maker on a note payable on demand, is not necessary, although in certain states on certain demand notes it is necessary. The Negotiable Instruments Law makes no provision as to this matter.

Defenses.—Absence or failure of consideration is a defense, and partial failure of consideration is a defense to the extent of such failure, except as against "a holder in due course." Forgery is a defense even as against a holder in due course, unless the party is precluded from setting up the forgery. A material alteration is a defense except as against a bona fide holder who may enforce payment according to the original tenor of the instrument (this changes the law merchant as to bona fide holders). Alterations are material where they change the date, sum payable or in any way alter the effect of the instrument.

SECTION 42.—INTERNATIONAL FINANCE AND TRADE

While United States export trade has for many years shown a balance in our favor, the country was a free buyer with a low selling power. That we had balances in our favor was not because we went after foreign trade, but because the foreign trader was obliged to come to us for things he could get nowhere else, and needed. Reciprocal understanding was never attempted. The United States was too sure of itself and its own way of doing things, to care very much what other nations wanted, nor for the ways in which other nations were used to doing business.

Our attitude toward the outlander might be expressed by a rubber-stamp declaration of independence: "Take it or leave it."

Statistics covering exports and imports a few years before and down to the war would have little or no value now, though they may be interesting sometime for purposes of comparison with those that will follow the peace agreement.

But current affairs seem to be shaping toward a retirement of the rubber stamp. For almost

three years before the United States went to war, the country experienced a vast awakening to the possibilities of export trade—possibilities that while large, were faint as compared with what will come in the earlier years of peace; for the war lessons in trade will have taught us much that in our aloof days we did not know, nor seemingly want to know.

In the early eighteen nineties a few enterprising concerns went out after the trade of South America. The one move that has come through alive, and justified those who made it, was started by the late William E. Curtis as a result of a trip around both coasts of South America by a government commission of which he was a member. What he saw during that trip gave him an idea which he made active by founding a Pan American bureau at Washington, from which has come about all the progress we have made in our dealings with South America. Curtis got a glimpse at South American methods, though not of the methods by which European countries, especially England, did business there.

All the efforts made since then to "capture South American trade" have been feverish. Few of them came to anything at all. Most of them died deaths costly in money, more costly in disappointed though once bright hopes.

They failed because they were, all of them, filled with the idea of "capture." They had the hustle theory. South American traders did not care to be captured; and hustle charmed them not at all. The contrary, rather. They could not see anything in it. Moreover, it was annoying.

The last mission from this country to that continent had its junket in 1916, and came home vastly satisfied with itself. One of its members, a prominent and very successful Chicago business man, made a warm and cheery address to a club after his return, at the conclusion of which a club member asked what the commission had done toward opening trade relations through American branch **banks** at the principal points of South American trade, and the establishment of a credit system, a system of acceptances through such branches in the South American countries. He was surprised.

"We were not out for the banks," said he. "We were out for the trade."

Neither he nor any of his associates seemed to have learned that the South American is ready to trade with any country—would be glad to trade with the United States—in the same way he trades with England, and Portugal and Spain—mostly with England, and with the same cred-

its. He has not gathered the American idea of cash on the nail, short paper, or open accounts. He wants credits of from eight to eighteen months, against which he is perfectly ready to accept drafts with shipping evidences, coming due at dates far enough off to let him make his turnover before he has to pay them. Pay them he would, turnover or no turnover, for the South American trader is jealous of his reputation and touchy in his sense of honor. It is simply a question of meeting him in his own way.

England gives him these credits as a matter of course. The overseas trade of England has been conducted on the acceptance basis from away back; was in fact built upon it. Americans looked upon the system as fogeyish—or funny. Credits of eighteen months! When here at home they could sell at thirty, sixty or ninety days on open accounts?

English banks and Canadian banks have maintained the trade of Great Britain and Canada through their branches in the West Indies (even in our own Porto Rico) and South America by handling the interchange of credits through acceptances that at once give the South American the goods he wants and the British or Canadian merchant his money for use while the credit runs; and the costs are small, the banks doing all

the collection work without a ripple and at nominal costs.

The transactions become bank transactions, the drawer (seller) simply shipping at one end and handing his draft to the bank and the buyer simply signing his acceptance of the draft, and receiving his goods. Then the seller discounts his draft in the home bank, and uses the proceeds in other transactions.

It is the safest and easiest of all forms of trading; safest because liability follows the goods, the goods are worth the money or more, and collection is reduced to a bank function purely. Easiest because it suits both sides, incommodes nobody, and stimulates trade without "hustle" or "capture."

Advertising in South American publications is good for anyone who wants to sell to South America, because the merchants there have never been fooled by extravagant promises into buying bad bargains. They take an advertisement to mean exactly what it says. Their great journals (two or three of the world's greatest are issued there) would not sell space at any price to a misleading or whoop-em-up advertiser. They have a pretty keen sense of responsibility to their public.

It is right and proper to make United States

products known in South America, by exhibition here, or down there by personal representation, or by advertisement in South American publications. But none of these, nor all of them, will get the trade unless the United States will sell to South America in just the way South America buys from other countries, and would like to buy from us.

British Banks.—Go through the financial district of London, and notice how many sober brass-plate signs with formal black lettering, countersunk to stay a few centuries, will tell you that here is the “Bank of the River Plate”—“Bank of Rhodesia”—“Bank of New South Wales”—“Bank of Bombay”—and bank of almost every far-out country worth trading with.

Those quiet concerns, with no outward evidences of wealth, are financing England’s trade overseas, with no hurry, no hustle, no anything but money all round.

When Wall street and La Salle street show such signs alongside their doors, all may know the United States has captured or is capturing her share of the trade of South America.

SECTION 43.—FEDERAL FOREIGN BANKING ACT

Growth of Foreign Commerce.—Even prior to the World War, American commerce had been pushing its way into the four corners of the globe. It was true that it had been carried almost entirely in foreign ships, but the thing that seemed to satisfy us for the moment, was the fact that it went, and the manner of its going was something of lesser importance.

This growth in our foreign commerce has kept pace with our own growth in manufactured products which we have been turning out in quantities in excess of our own demands, and our manufacturers have been forced to look to a foreign market.

War Expansion.—In the early months of the war, the United States was the one great neutral manufacturing nation as well as the world's granary, inasmuch as the merchant ships of the warring nations were practically swept off the seas. The United States manufacturers and exporters of all kinds rushed into the vacuum thus caused by the war and American goods were in greater demand than ever, not only by the warring nations, but by the neutral nations cut off from other foreign sources of supply.

Even during our participation in the war the amount of exports piled up to unheard-of aggregates, so that the balance of trade was strongly in our favor and the United States became the creditor nation of the world.

Foreign Banking Facilities.—As our foreign commerce grew, the nation began to realize its handicap in the matter of foreign banking facilities. Foreign nations have their own methods of transacting business, their own and customary terms of credit and payments, and our competitors in the foreign field had been long used to doing business with these nations in their own way.

The South American trade, for example, has been used to buying on long credits, from six to twelve months, and France, England and Germany as well as the other nations of Europe have been taking the lion's share of this trade on these terms.

To facilitate the handling and financing of the great volume of such foreign business, these countries extended their banking facilities to these foreign fields, with the result that our own exporters were at a decided disadvantage, losing to their competitors the trade that was not in a position or willing to make payment in New York against bills of lading.

Expanding the Federal Reserve Act.—Our

own banking system having been so successfully reconstructed and expanded through the Federal Reserve Act, creating the Federal Reserve Banks and enlarging their powers and functions in case of national financial stress, having proven so beneficial, Congress, in 1919 amended the act authorizing the creation of banks within the United States to do foreign banking business, by what is known as the Edge, or Foreign Banking Act, approved December 24, 1919.

Provisions of the Act.—The Act amends the Federal Reserve Act by adding a new section (25), and owing to its importance, is given in full as follows:

“Banking corporations authorized to do foreign banking business.

“Sec. 25. (a) Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the secretary of the treasury as fiscal agents of the

United States, may be formed by any number of natural persons, not less in any case than five.

“Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

Organization Certificate.—“Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the federal reserve board and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

“1. The name assumed by such corporation, which shall be subject to the approval of the federal reserve board.

“2. The place or places where its operations are to be carried on.

“3. The place in the United States where its home office is to be located.

“4. The amount of its capital stock and the number of shares into which the same shall be divided.

“5. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

“6. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies and corporations who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

Completing the Organization.—“The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the federal reserve board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the federal reserve board has approved the same and issued a permit to begin business, the association shall become and be a body corporate and as such and in the name designated therein shall have power to adopt and use a corporate seal which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years

unless sooner dissolved by the act of the shareholders owning two-thirds of the stock, or by an act of congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain or defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the federal reserve board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

Scope of Operations.—“Each corporation so organized shall have power, under such rules and regulations as the federal reserve board may prescribe:

“(a) To purchase, sell, discount and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, accep-

tances, including bankers' acceptances, cable transfers and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any state thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the federal reserve board may impose; to issue letters of credit; to purchase and sell coin, bullion and exchange; to borrow and to lend money; to issue debentures, bonds and promissory notes under such general conditions as to security and such limitations as the federal reserve board may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this act or as may be usual, in the determination of the federal reserve board, in connection with the transaction of the business of banking or other financial op-

erations in the countries, colonies, dependencies or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the federal reserve board, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the federal reserve board may prescribe, but in no event less than 10 per centum of its deposits.

Branches.—“(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the federal reserve board and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

Holding Other Stocks.—“(c) With the consent of the federal reserve board to purchase and hold stock or other certificates of ownership in

any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any state, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the federal reserve board may be incidental to its international or foreign business: Provided, however, That, except with the approval of the federal reserve board, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: Provided further, That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any state which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

Stock Held for Debt.—"Nothing contained

herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the federal reserve board.

No Domestic Business.—"No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the federal reserve board, shall be incidental to its international or foreign business: And provided further, That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the federal reserve board to commence business as a corporation organized under the provisions of this section.

No Commercial Business.—"No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities.

The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent or employe of any such corporation to use or to conspire to use the credit, the funds or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than \$1,000 and not exceeding \$5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

Amount of Capital.—“No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in. The capital stock of any such corporation may be increased at any time, with the approval of the

federal reserve board, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval and may be reduced in like manner, provided that in no event shall it be less than \$2,000,000. No corporation except as herein provided, shall during the time it shall continue its operations withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the federal reserve act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

Nationality of Stockholders.—"A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a state of the United States, or by firms or companies the controlling

interest in which is owned by citizens of the United States. The provisions of section 8 of the act approved Oct. 15, 1914, entitled 'An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes, as amended by the acts of May 15, 1916, and Sept. 7, 1916, shall be construed to apply to the directors, other officers, agents or employes of corporations organized under the provisions of this section: Provided, however, That nothing herein contained shall (1) prohibit any director or other officer, agent or employe of any member bank who has procured the approval of the federal reserve board from serving at the same time as a director or other officer, agent or employe of any corporation organized under the provisions of this section in whose capital stock such member bank shall have invested; or (2) prohibit any director or other officer, agent or employe of any corporation organized under the provisions of this section who has procured the approval of the federal reserve board from serving at the same time as a director or other officer, agent or employe of any other corporation in whose capital stock such first-mentioned corporation shall have invested under the provisions of this section.

Members Federal Reserve Board.—"No member of the federal reserve board shall be an officer

or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any state, nor hold stock in any such corporation, and before entering upon his duties as a member of the federal reserve board he shall certify under oath to the secretary of the treasury that he has complied with this requirement.

Stockholders' Liability.—"Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any federal reserve bank.

Forfeiture of Charter.—"Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought

by the United States at the instance of the federal reserve board or the attorney-general. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders or officers for any liability or penalty previously incurred.

Voluntary Liquidation.—"Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

Receivership in Insolvency.—"Whenever the federal reserve board shall become satisfied of the insolvency of any such corporation it may appoint a receiver who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers and authority with respect thereto as are now exercised by receivers of national banks appointed by the comptroller of the currency of the United States: Provided, however, That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

Annual Meetings; Reports.—“Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the federal reserve board. Every such corporation shall make reports to the federal reserve board at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the federal reserve board by examiners appointed by the federal reserve board, the cost of such examination, including the compensation of the examiners, to be fixed by the federal reserve board and to be paid by the corporation examined.

Dividends.—“The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its

surplus fund until the same shall amount to 20 per centum of its capital stock.

Liability for Taxes.—“Any corporation organized under the provisions of this section shall be subject to tax by the state within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that state which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar state corporations.

Extension of Charter.—“Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the federal reserve board for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the federal reserve board such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an act of congress or unless its franchise becomes forfeited by some violation of law.

Existing Banks May Come Under Act.—"Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any state or of the United States or organized under the general laws of any state or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the federal reserve board, be converted into a federal corporation of the kind authorized by this section with any name approved by the federal reserve board: Provided, however, that said conversion shall not be in contravention of the state law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking association, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking association into a federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to

make its organization perfect and complete as a federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the federal reserve board has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers and employees shall have the same powers and privileges, and shall be subject to the same duties, liabilities and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

Penalties.—"Every officer, director, clerk, employe or agent of any corporation organized under this section who embezzles, abstracts, or wilfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment or decree; or who makes any false entry in any book, report or

statement of such corporation with intent in either case to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the federal reserve board or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employe of such receiver who shall embezzle, abstract or wilfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employe of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to mislead the federal reserve board, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employe or agent of any corporation organized under this section, or receiver or clerk or employe of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not

less than two years nor more than ten years, and may also be fined not more than \$5,000 in the discretion of the court.

“Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine of not more than \$10,000 and by imprisonment for not more than five years.”

SECTION 44.—BANKS, WORKMEN, AND RETAILERS

During the movement conducted by The National Citizens' League for the Promotion of a Sound Banking System, which led up to and largely assisted in establishing the present Reserve Bank System, that league issued (1912) a book under the title "Banking Reform." Prof. J. Laurence Laughlin, an authority in the science of finance and a member of the faculty of the University of Chicago, edited the book, and contributed considerable original matter.

Leading up to its object, the book gave an outline of the course of American banking from the passage of the National Bank Act to the time of writing. One section was given to an untechnical account of those functions and traits of banking which are fundamental to all modern systems. Among these was the following consideration of the direct relations between banks, wage earners and small merchants:

The bank stands in a two-fold relation to the community as a whole—meaning by that term those who are not necessarily customers of the

bank or depositors with it, as well as those who, while using the bank as a means of convenience for the safe-keeping of funds, do not transact any business with it in which credit is bought or guaranteed. This two-fold relation consists: (1) in supplying a satisfactory means of exchange and in the safe-keeping of funds; and (2) in the maintenance of such credit conditions that economic opportunities, including the field of employment, the chances for investment, and other conditions of the same sort, are permitted to develop gradually and steadily without shock and in such a way as to preserve the welfare of every member of society.

Much is said about the "safety" of banks, and the national banking system has been highly praised because of the fact that its notes have always been redeemable at face value, while the losses to depositors have been small when compared with the total liabilities. It remains true that a bank may be a very safe institution and yet a very unsatisfactory agency.

Even from the narrowest standpoint, the mere maintenance of an ability to redeem its obligations is only the bare minimum of what should and must be required of an institution of credit. Little or nothing is heard of the bearing of bank credit upon the general steadiness of employ-

ment, the payment of wages, and the support of prosperous conditions. Yet all of these factors have a direct and intimate connection with banking.

The simplest form in which the bank is brought into contact with the individual is seen in the actual safe-keeping of money. The individual may have coin or currency which he does not immediately need to use and which he therefore deposits in a bank for safe keeping. The bank is said to be sound or solvent if it is able at all times to return to individuals an amount of money equivalent to that which they have left with it.

A somewhat more complex form of relationship is seen in those cases where the individual has not left actual money with the bank, but has deposited with it checks or drafts upon other banks (or upon the bank itself). In such cases, he has transferred to the bank a right which he might have exercised of calling for such money or currency as his checks and drafts entitled him to. The solvency or safety of the bank is tested in this case, as in the former one, by the ability of the bank to liquidate this title to draw which the depositor has received from it at the time when he gave up his checks or drafts to the bank.

The total amount of outstanding claims upon

banks is always far in excess of the money which they carry in their vaults. Under the national banking system, the largest amount of reserve which any bank is compelled to hold is 25 per cent of its outstanding liabilities. This means that even if every deposit with the bank had been directly made in coin, it might have used this money as a basis for loans to four times the amount of the deposit in question; in other words, it might have increased its liabilities to four times the amount of the money and currency in hand. It is evident that in such cases a solvent bank is so only in proportion as claims are not presented to it for cashing, since it could at no time meet the combined claims outstanding. If any considerable part of them were presented and a demand for liquidation into money were made, the bank would have to close its doors. Plainly then, the safety of the bank does not consist in its keeping on hand a large sum in money, since it never can expect to have in its vaults enough money to meet all possible claims.

The safety or solvency of the bank is found in two conditions: (1) the possession of assets which can unquestionably be turned into cash, in sufficient amount to equal the liabilities of the bank, and (2) the possession of opportunities or facilities for converting these assets into cash so

steadily and regularly that it will at no time be compelled, even temporarily, to suspend specie payments—that is to say, to ask its depositors to wait.

For many reasons, the depositor places great stress upon this ability to convert his deposit promptly into liquid resources. His credit at the bank may be all that he has to protect himself and those dependent on him and supply them with necessities. If the bank fails, his funds are tied up indefinitely, and perhaps are partially or even wholly lost. If the bank suspends, he is unable to get the current funds he needs to pay his ordinary bills. In the first case, his savings are swept away and his interests are destroyed correspondingly. In the second case, he is obliged to ask others for credit or for leniency during the time that the bank has suspended. He is thus put to a very considerable inconvenience.

During the period of suspension, demands may come upon him for cash which he is absolutely unable to satisfy. Opportunities for investment or for other uses of his funds must be sacrificed simply because he cannot draw upon his own resources, which are now in a non-liquid form. Invariably therefore, he considers the maintenance of liquidity at his bank as essential; and this requirement is so strongly entertained

by him that in the event of suspicion concerning his bank's immediate capacity to meet its liabilities he may make matters worse by insisting that the bank pay him in full at once. If enough depositors adopt this course, the result is to make the situation much more serious and perhaps to drive the bank to close its doors. Ability on the part of the bank to meet a condition of this kind is therefore essential.

How Workmen Are Affected.—This calls attention to the requirements of the wage worker in connection with banking. The system must be such as to assure him, so far as it can, the steady flow of funds that will enable him to restore his deposits when they have been drawn down by the withdrawal of cash for current needs. This reconstruction of deposit accounts comes only through a free flow of funds throughout the community; that is to say, through the steady payment of wages and salaries. This process is rendered possible only by the continuous activity of industry. But continuous activity can be obtained only in those cases where the business world is able to obtain freely and at reasonable rates the capital which is necessary to enable it to offer employment, and thereby secure the means of operating its plants continuously. When employers are able to do

this, there is a free flow of funds throughout the community, and the laborer is able to get wages in cash in exchange for his services. If the flow of funds in this way is checked through inability on the part of banks to liquidate, the employer may desire earnestly to set men at work, and laborers may be eagerly in search of employment, but they will not be able to coöperate. In modern society where labor is highly specialized and a machine type of industry prevails, wages are not paid in the products of labor, but are paid from the previously stored capital which is kept in a fluid or liquid condition through the action of banks.

The essential need of the wage earner is stability in industry. Such stability can be secured only when industrial managers are supplied with all the elements of production. Of these elements, bank credit forms an increasingly important part.

The claim may be made that such credit is not needed by all concerns and that only in an inflated condition of industry would it be called for. It is assumed by some that the business man who borrows at the banks is an exceptional person. This is far from being the fact. Practically every business that is conducted upon any considerable scale requires accommodation. The

accommodation in question is not loans as a general rule, but discounts; in other words, funds which anticipate the payment of claims which the business has obtained against others in return for the services or goods which it supplies. In proportion as goods are sold upon credit, it is necessary that banks should intervene between the purchaser and the seller of the goods. The purchaser does not pay cash, because he looks to the sale of the goods to provide the means for liquidating their cost. But the seller needs cash because he has to pay his employes in cash. He places his price at such a point that he can afford to extend credit for a reasonable period. Then he draws upon his customer, and through the aid of the bank the draft is recognized and the funds are placed at his disposal for immediate use.*

These transactions become more numerous and necessary in proportion as industry becomes highly specialized, and in proportion as more and more processes intervene between the original producer of raw materials and the person who consumes the product that has been developed out of them. The intervening stages through which the product goes represent repeated turn-overs of capital, and require time.

* See "Trade Acceptances," volume III.

The element of time thus becomes an important feature in productive enterprise, and this it is the function of the bank to allow. Should the banking mechanism break down, a gap would open between the producer and the consumer which could not be bridged.

In proportion as credit plays a part in the process of producing goods, it constitutes a corresponding element in the cost at which goods are turned out. The cost at which goods are turned out determines their price to the consumer upon any competitive market. The wage-worker spends the principal part of his income in purchasing commodities for consumption. He has to pay a correspondingly larger part of his income when the prices of commodities are high, and is correspondingly relieved when they are low. Any element that can reduce cost is likely to reduce the price to the consumer. Wherever capital is an important element of cost, therefore, it is an important factor in determining how much the worker shall get in return for his money wages.

Borrowed capital is an important element in all modern operations. Whatever then results in high interest rates on loans at banks, ultimately tends to produce higher prices for goods to the consumer. The consumer, who is predominantly

a worker for wages, receives a larger amount in real wages—the things that money will buy whenever industry is stable and bank accommodation is reasonable. It is a familiar fact in all countries where rates of interest are very high, that prices are correspondingly exorbitant and the result is that in those countries all goods that are produced with the use of borrowed capital are raised in price to an equivalent extent.

While, therefore, the well-being of the general mass of the consuming and laboring population in the maintenance of a stable currency and a steady condition of business, free of panics and depression, is very great, the interests of these groups in the community in the regular and systematic conduct of the industry upon an economical basis is even greater.

The small business man is particularly and peculiarly interested in banking facilities. He has demands for credit and bank accommodation as acute as any large merchants, without the latter's resources of power to force compliance with his needs. He is infrequently interested as stockholder in, or connected as a director with, any bank institution. His paper is not known beyond the locality in which he operates. No bank is specially eager to secure his business, and he cannot send his paper abroad for disposal if

he has urgent demands which, for any reason, his particular bank will not consider.

The merchant with small capital is, however, a decidedly important factor in every community, large or small. In the aggregate he is a great power in the nation. He supplies the needs of the ultimate consumer, and it is through him that the banks are brought into touch with the consuming masses and are thus made parties to the final process in the transition of goods from producer to consumer.

In the end it is this consumer who supplies the cash to discharge a credit obligation which may have originated in a loan to the producer of the commodity. At every stage in the various forms of transferring a thing from producer to final distributor, borrowed capital may have been used and credit for it extended on the strength of the continued existence of the commodity. The ultimate consumer has no such security to offer. Once a thing is passed to him, it is destroyed or its value impaired by use. He must pay for it.

Broadly viewed, the banks must be keenly interested in the final process of the series which marks the progress of goods toward the goal. They must be particularly alive to the important position held by this small merchant. To a large degree it is on the ability to discharge his final

duty that the success of the whole complicated scheme of production and distribution depends. His financial position and his means of using his capital and securing credit to carry on his operations are therefore of vital importance in any plan of banking or banking reform. His paper has its own characteristics. It is essentially local. The extension of credit to him is determined largely by the banker's knowledge of his personal dependableness and the character of the business in which he is engaged.

These characteristics distinguish the paper of the small merchant without regard to his location. His case is the same in the large city or the small town. If he is in the latter, the field in which he may apply for loans is geographically restricted. If he is in the former, his difficulties are not less, because he must necessarily attach himself to one bank and look to that one for his accommodation. In every case his demand for loans is direct, personal, and largely dependent for its satisfaction upon the judgment of the banker and his appreciation of the needs of this small client.

The service of the bank is thus that of facilitating the flow of goods into the consumer's hands at the time when they are wanted. The consumers have to pay for this service in the prices

charged by the merchant, because he naturally is obliged to compensate the bank for its advances of funds, and his operating expenses are thereby increased. The longer the period of credit is, the higher the prices will be, and the larger the accommodation which has to be granted by the bank, and the rate of remuneration that will have to be charged for it. Presumably, the consumer gets more than a corresponding return in the shape of convenience or he would not submit to this condition but would pay cash for his goods.

In such transactions loans are made by the bank upon the merchant's own personal note. Evidence of his solvency and ability to pay is secured from inspection of his stock, his books and accounts, from his statements or otherwise. If he has property outside his business which is within reach, the bank will feel the more confidence, but whether he has such property or not, the immediate test of the loan will be the character of the customers he is supplying and the nature of their own personal credit—the extent of their capacity to pay.

The banker's judgment as to which members of the community are entitled to the use of the fluid funds of the community is therefore vital, because it results in entrusting the funds to suc-

cessful or unsuccessful individuals, as the case may be. It places them in trustworthy or untrustworthy hands. It puts them where they will be wisely used or will be wasted. In the long run, the judgment of the banker on this subject is always right.

If he makes many mistakes in judging the character of his customers and their title to accommodation, he himself is the loser and eventually must go out of business. He will then be succeeded by some one else whose judgment is sounder and better than his own. Probably there are few lines of business in which closer and more accurate scrutiny and knowledge of the details of transactions are needed and are actually obtained than in the country banking or in city banking where the clientele consists of retailers.

The paper of the merchant, as has been shown, is distinctly local in character. The whole banking operation connected with it must, therefore, be carried on by persons familiar with conditions in the community where it originates. It is plain, also that in such circumstances, the limit to the loans which can be extended is marked by the banking capital available in the community. This banking capital is supplied by those who first organized the local banks and those who have subsequently made actual deposits of fluid resources.

There is another aspect of this relationship between the local merchant and the bank. The merchant is invariably also a depositor at his bank, as well as a borrower. He is a depositor in a sense somewhat different from that which attaches to a depositor specifically as such. When he borrows from the bank he almost invariably takes his loan in the form of a book credit. He draws on this book credit in order to meet his obligations. He seldom asks the bank for actual money. Frequently, his customers pay him in checks and he deposits them with the bank. When they pay in actual cash, he promptly takes the money thus received to the bank. His deposits with the bank, whatever they may be, are frequently less than the amount that he owes the bank for the accommodation which has been extended to him. It is therefore vital to his success that he should be enabled to continue doing business with the institution without interruption.

For such reasons the mercantile part of the community is usually the strongest support of the banks simply because its interest is so closely bound up with that of the banks. The security behind the commercial paper of the community is thus not merely the actual property of the merchants who compose it, but is also their com-

mercial future and their general prospects of success in a business way. The paper which they supply the bank is therefore one of the best bases for rediscount that can be offered. The assurance that it will be paid without default is as great as can be obtained.

SECTION 45.—FOREIGN AND DOMESTIC EXCHANGE

Foreign exchange is commonly thought to be complicated because some of the principles involved are not familiar. But they are the same as those of domestic exchange, except that in foreign exchange coinage bases have to be equalized. Domestic exchange is free from this necessity. That is all the difference.

Transactions of importance cannot be settled in currency, even though the currency be in large denominations and the transaction is local. Bank checks obviate the necessity of using currency. In most circumstances a creditor is just as willing to receive the right to demand money as he is to receive the money itself.

Bank Credits.—A bank is an institution which permits persons to create credits either by the deposit of cash or by borrowing at the market rate of interest. It permits these creditors to draw orders upon it for any amount up to the limit of their credit. These orders or checks give the holder the right to demand the cash or to create credit for himself by a deposit of the

checks. These credits on the books of the banks in favor of their patrons furnish a means of payment which has largely superseded the use of cash in. If there were only one bank in a town all the checks drawn against it would be returned to it, either for payment or deposit. Where there are several banks, a system is required for settling the debt and credit balances between them.

Payments between different cities increases the complexity of making settlements, but the principles remain the same. If a man in Chicago wants to pay a bill in Cincinnati he will probably draw a check on his Chicago bank exactly as though the other man also did business in Chicago. The Cincinnati man will deposit the check in his home bank and put the burden of collection on that bank. The charge for making collections in such cases used to be so heavy that the creditors frequently refused to take the checks. When that happened the debtor was obliged to buy from his bank a draft payable in the city where the debt was due.

New York being the commercial and financial center of the United States, business men in every city and town are likely to have financial relations with that city, either as purchasing goods or selling goods. This has made it ad-

visible for banks throughout the country to maintain deposits in New York banks. There are always payments to be made to New York buyers and payments to be made from New York to sellers.

Without the use of exchange it would be necessary to pay for every shipment of goods by forwarding cash and to receive payment for every consignment by transporting cash in the opposite direction. With the use of credit the shipper in the inland town receives payment for his consignment by drawing a draft upon the consignee, or by awaiting receipt of a draft upon a New York bank. Either of these instruments he deposits in his local bank, which forwards it to New York and receives a credit there upon the books of the New York bank. The local bank has then the right to receive a certain sum of money in New York, and can realize this right either by requesting the shipment of cash or by drawing a draft against it.

Merchants who have made purchases from New York must provide a means of payment in New York when the bills are due. The local banks, having deposits in New York, are quite willing to sell orders upon the New York bank. Thus by means of buying and selling the right to sums of money in New York the payments which

are necessitated by the movement of goods in and out are made.

New York exchange, being orders upon deposits in New York banks, are acceptable everywhere, because there are so many persons wishing to make payments in that city, and because every banking institution in the country deals either directly or indirectly with some New York bank.

Settlement Between Banks.—While in the long run the movement of goods from New York and to New York must practically balance, yet it would be a rare coincidence if the commodities sent from any given locality to New York exactly balanced the goods received from to New York. Any bank, therefore, has occasion to purchase more New York exchange than it needs to sell, or it has a demand for more than it needs to buy or receive on deposit from its customers. Unless the country bank wishes to shift its deposit account from a New York bank to some other bank it must make a shipment of currency if it wishes to reduce its deposit.

If a country bank has a large enough deposit with its New York correspondent, it will accept deposits of checks on New York only with the intention of making shipments of cash to reimburse itself for the sums

paid out. The shipment of currency involves expense and it is quite likely that it will not accept superfluous New York exchange unless it receives a fee which will cover the cost of collecting the same in cash. This cost depends upon three items; first the express charge, second insurance and third the loss of interest. The charge for transportation is usually combined with the charge for insurance by the express company. The moment the New York bank delivers the cash to the express company for shipment to the country bank upon its order it ceases to pay interest upon that sum. The country bank therefore loses the interest upon the same until it receives it and uses it as a basis for interest paying loans.

Currency shipments between New York and Chicago cost in the neighborhood of 50 cents per thousand dollars; between St. Louis and New York it is 60 cents; between New Orleans and New York it is 75 cents, and between San Francisco and New York it is \$1.50.

United States Sub-treasuries.—The cost of shipping currency from one city to the other is frequently saved to the banks by the treasury department of the government. For a good many years payments to be made between the treasury at Washington and the sub-treasuries in the

various large cities were all conducted by cash shipments. It happened very frequently that while the treasury was forwarding considerable sums of cash between two cities, the banks would be shipping currency in the opposite direction. A cashier in New Orleans early in the seventies suggested to the Secretary of the Treasury that a saving both to the government and the banks might be effected if the banks when they wished to transmit money to a city in which a sub-treasury was located would ascertain whether the government at the same time did not wish to send money in the opposite direction. If this proved to be the case, it would be profitable to the banks and to the government to allow the banks to deposit the money in the treasury and receive an order upon the treasury in the other city. The treasury office in the first city would receive the currency it required from the depositing bank, and the bank in the other city would receive the currency from the treasury instead of from its correspondent; and all cost of transporting the money would be eliminated.

Exchange Rates.—Suppose there was a great demand for New York exchange in any city on account of the heavy bills falling due at some particular season of the year. The banks will discover that the demand

for New York exchange far exceeds the supply of checks and drafts deposited by customers. Their deposits with their New York correspondents are reduced, and in order to continue selling New York exchange they must ship currency to that city. In that case they will be justified in charging at least 50 cents premium for every \$1,000 of New York exchange sold, in order to reimburse themselves for the actual cost. Competition between the local banks will not become keen enough to bring about a much higher charge than this.

But if the receipts of New York exchange exceed the demand on account of heavy shipments of grain or produce to New York, the banks will find their deposits in New York larger than they care to maintain. They will be forced to order shipments of currency to them. To reimburse themselves for the expense they will subtract from the face value of the exchange bought or received on deposits the cost of doing the business. Thus it is possible for exchange on New York in San Francisco to be sold at a premium of \$1.50 or to be offered at a discount of the same amount.

Why does it not happen that in certain circumstances a community may buy more goods than it sells during any particular period, and thus

be forced to part with all its currency in settling the balance? Since each trader is simply looking out for his own private profit and does not concern himself with the question of the amount of currency, there seems to be no reason why a community might not be drained of its currency. This brings up the question of the balance of trade, the principles of which are the same whether the exchange of goods is between two separate nations or between two localities within the same nation.

Suppose for any reason that there should be an unusually heavy purchase of goods by the members of a western state in any particular year. The merchants would buy New York exchange with which to pay their bills. The banks, after having exhausted their credits in New York, would be obliged to ship currency in order to cover the drafts on New York sold to the merchants.

The Clearing House Principle.—Domestic exchange as we have seen, is simply a banking device to avoid the unnecessary shipment of money by settling balances only. The principle is exactly the same as that on which clearing houses are based. The banks in any one city find at the end of the day that they have received from their depositors a great number of checks drawn on

neighboring banks. Before the days of the clearing house each bank sent a messenger to all the others with the items against them and received the cash in payment. At the same time each of the banks were sending out messengers to make collections they were paying cash over the counter to the messengers of other banks in settlement of the checks against them. By having common places of meeting the messengers could deliver the items to the debtor banks and could receive the checks representing the credits due them all at one time and could easily figure up the difference between the debts and the credits. Settlement could then be made by payments representing the differences which were likely to be less than 10 per cent of the total transaction, thus saving the handling of 90 per cent of the cash represented by the checks handled.

Balances Settled by Credits.—Methods have been found for eliminating the shipment of currency, even in order to pay balances. Banks which become debtors to others through the settlement of accounts may borrow the balance due from the creditor bank and pay interest thereon. This of course is not a final settlement of the balance, but simply postpones the settlement, yet if in the near future the balance hap-

pens to run in the opposite direction the loan may liquidate itself by a credit balance in lieu of cash.

Gold in Foreign Exchange.—In domestic exchange, ultimate payments may be made in any form of currency but in settling balances between nations gold is used. Gold is the ultimate basis of credit in all civilized countries, and since a volume of currency very many times its amount is erected upon it, the movements of gold from one place to another are of more importance than movements of any other form of cash.

International Bankers.—The service to the business community of the banker who deals in foreign exchange is not only that he does away with over 90 per cent of the shipments of gold which would otherwise be necessary, and thus causes a great saving of expense and risk in settling commercial transactions, but of far greater importance is the service that he renders in steadying the credit conditions the world over. His function is more than to eliminate the shipments of money back and forth to make payments—he further decreases such shipments by borrowing and lending in foreign markets, so that the final and absolutely necessary shipments of gold are reduced to a low minimum as

compared to the total amount of business transacted.

Foreign Exchange Quotations.—Quotations for sterling exchange are the prices at which the right to receive certain sums in England is bought and sold in New York and varies like everything else according to demand and supply.

The monetary unit of England is the pound sterling, which contains 113 grains of pure gold. Since our monetary unit is the dollar, composed of 23.22 grains of gold, it is easy to calculate that the English sovereign (the name of the coin containing a pound sterling) is exactly equivalent to \$4.8665. In other words an English gold sovereign can be taken to a United States mint and recoinied into 4.8665 American gold dollars.

The lowest equivalent of the English sovereign was that of March, 1917, being \$4.7570. It rose to about normal after America declared war.

But there is a difference between the right to receive gold sovereigns in England and the use of gold sovereigns in the United States. A gold sovereign in England will not pay a debt in America unless it is first imported into its country and coined over. Therefore it is worth to its American owner \$4.8665, less the cost of bringing it to this country, unless he can realize upon

it by selling the right to receive it in England to someone who wishes to use it there.

The cost of shipping gold across the Atlantic varies slightly from time to time. The following figures show a fair approximate average:

Invested in fine bars, 23,220,000 gr.....	\$1,000,000.00
Assay office premium on bars 4 cents per \$100	400.00
Freight 5-32 per cent	1,562.00
Insurance 1-16 per cent.....	625.50
Packing and cartage	70.00
	<hr/>
	\$1,002,657.50

The Minimum Sterling Exchange.—Calculating the total cost of shipping gold between America and Europe at the lowest figure of two cents per pound sterling, it is easy to understand why \$4.8465 is called the minimum gold point for foreign exchange. If there should be an extraordinary supply of foreign bills for sale their price under normal conditions could never go far below this figure because there would always be some international banker who would be willing to pay for them the moment there was any profit in buying them, for the purpose of exporting gold, after they had been cashed in England. This minimum price does not mean that the value of foreign bills is an exception to the law

of supply and demand, but that when the price falls below a certain minimum there arises automatically an unlimited demand.

Maximum Sterling Exchange.—On the other hand the price of sterling bills may not rise above \$4.8865 under normal conditions because at that figure there is always an unlimited supply, so that no one who wishes to buy need pay more. The reason for this unlimited supply is this: The international bankers, seeing a chance for profit, will sell foreign exchange above the maximum gold point whether or not they have a credit balance abroad. Lacking such a balance, they buy gold with the proceeds of the bills. As soon as they have been issued they export gold to Europe so that it will arrive at the same time the bills are presented for payment, thus closing the transaction as far as the issuer of the bills is concerned.

Theoretically, the price of demand sterling cannot fall much below \$4.8465 because of the great demand on bankers when it tends to fall below. But there are other conditions under which it may go considerably lower.

In March, 1907, the price fell to \$4.83 for a time, and in the autumn it fell still lower. There were several reasons for this:

The rate for call loans in New York was very

high and bankers who would otherwise have purchased the exchange did not do so because it was more profitable to loan the money than to invest it in exchange, which would have tied it up for at least two weeks, the time required to send the bills to London, exchange them for gold, and ship the gold to this country.

The reluctance of American bankers to withdraw gold from England at a time when it was needed there and when there was danger of a rise in the discount rate if the reserve in the Bank of England were endangered.

The difficulty in getting gold for export. The bills could be paid in notes, and although the Bank of England must redeem all notes when asked to do so, it has the right to pay out coins of less than full weight and make a difference of a cent profit in the pound.

The high price of gold bullion in London. To avoid the loss incidental to shipping coins, the abrasion and the light weight, bars of gold must be purchased in the market. Gold bullion is marketed in London as a commodity, but with fixed limits to fluctuation of price.

The premium on currency in New York in November, 1907, due to the suspension of cash payments by the banks.

The bulk of the gold produced in the world

comes from South Africa direct to London to the amount of about \$2,500,000 per week. The bullion brokers meet on Mondays to trade. Some of them have certain amounts of bullion to dispose of; others have buying orders. They begin by comparing notes and quite a variety of interesting situations may be disclosed. There may be a big amount to offer and a few small buyers, or vice versa.

The Bank of England is required to pay out notes for gold at the rate of 77s 9d per ounce and this fixes the minimum price. On the other hand, the bank is under legal obligation to redeem its notes for gold at the rate of 77s 10½ d per ounce. This appears at first sight to limit the selling price, but on account of the right of the bank to pay out light weight coins for the notes the maximum is raised to practically 78s per ounce. There is a tacit understanding that the bank is to have preference when it is willing to pay the best price offered by any other bidder.

The fact that the Bank of England must buy and sell all the gold offered at the prices fixed by law, makes it very difficult for England to hold her supply of gold when other nations are bidding high for it by maintaining high interest rates. England for this reason is called a "free" gold market. The Bank of England exercises

control over the gold supply by manipulating the rate of discount. A rise in the rate discourages both foreign and domestic borrowing, not only at the bank, but from all other banks that are forced to follow the bank rate. This means of control is effective, but it is expensive to the business interests of the country, to whom the difference of 1 per cent in interest payments means a great deal.

The system of France seems to have been superior in 1907, for while there were stringencies in all other markets, and the rate of the Bank of England was held for a long time at 6 per cent, customers of the Bank of France could always get funds at 3 per cent. The Bank of France has a monopoly of note issue, but is not compelled to redeem its notes in gold. When it desires to protect its gold reserve, the Bank of France refuses to pay out gold in quantities for export except at a premium. This premium is never so high that exporters are induced to gather up outside gold at greater expense, but it is high enough to discourage lending in foreign markets by French capitalists without interfering with foreign trade.

Proximity of the quotations for demand sterling to the minimum or maximum gold points indicates an approaching export or import of gold.

High quotations indicate exports, while low quotations indicate imports.

Shipments of gold interfere with the basis of credit and are therefore carefully watched by everybody whose interest can be effected by changed conditions in the credit market. The rate of interest and especially the rate of call loans is sometimes changed quite suddenly on this account. A sudden weakening of the call loan rates is very likely to lead to a calling of loans based on securities as collateral, with the result that stocks are likely to be thrown on the market for sale, thus depressing prices. This explains the close relation between the foreign exchange market and the stock exchange.

Before the war, for some years, the thrift of the French people induced our financiers to make unusual efforts to establish a market for certain American securities in Paris. The Pennsylvania Railroad Company sold a very large issue of bonds in that country and at the present writing Morgan and Company are eagerly seeking the privilege of listing the securities of the United States Steel Corporation on the Paris Bourse.

The United States is just coming to be a market for foreign securities. The only foreign security which is at present quoted on our exchange is the Japanese war bonds. Portions of

bond issues of South American states, such as Peru and Chili, are occasionally allotted to American bankers to be disposed of in this country, where they find a favorable market.

The movement of these securities to and fro is the most potent cause of fluctuation in the foreign exchange market. Stocks are probably the first thing in the country to feel the effect of the tendency to higher prices, caused by an increased amount of money or credit. A very small rise in the quotations of securities is sufficient to cause considerable selling of them in this market, which has a tendency to create a demand for foreign exchange to pay for them, hence a rise in the price of exchange until exports of gold are induced.

London Time-Drafts.—Dealers who have sold time-drafts on London without having deposited credits there sometimes postpone the forwarding of funds until the drafts have reached maturity. They do this hoping perhaps the market may decline before the maturity date, and thus enable them to purchase exchange at a greater profit. Having waited so long without purchasing demand sterling, they are obliged to go into the market for cables at the last moment. The price of cables runs about twenty points above the price of demand sterling. This difference repre-

sents the price of cable messages and the interest for six or seven days. The dealer who sells a demand draft knows that the funds cannot be called for in London until the draft has reached that city by mail, which at the very best must require at least six days. In the meantime his London account is drawing interest.

Demand Sterling represents a draft which is payable on presentations and demand. There is a difference of five points between the quotations at opening and closing. This difference is accounted for by the difference in quality of the drafts in the matter of security. Drafts drawn by the best known and most reliable institutions command a slightly higher price than those issued by weaker firms. The price of ninety-day drafts is nearly 2 cents per pound sterling less than for demand drafts. This is because the purchaser of the draft must wait ninety days before he can demand payment. The 2 cents represents the interest for ninety days.

The rate of interest which is to be subtracted from the quotation for demand sterling in order to get the equivalent for ninety days drafts is reckoned at the English current rate of interest. The reason for this is that the purchasers of the bills may send them at once to London and re-discount them there at current rates of interest,

and if they choose to realize on the funds may sell demand sterling at the market price, even before they forward the ninety-day bills.

Bill-Brokers.—England has a class of bankers called bill brokers, whose function is to discount time drafts for persons who desire to realize funds immediately and who are willing to pay a consideration to avoid waiting until the maturity of drafts. So universal is the custom in England of drawing drafts for accounts payable that the rate of discount is more important than the rate of loaning funds. Many English business men have no direct relations with banks, but deal with these bill brokers in much the same way that in legal matters English people deal directly with a solicitor who represents a barrister, who is the one who appears in court and actually handles the case. The rate at which the long bills can be discounted in London depends upon the official rate at the Bank of England.

Few of the bill brokers expect to hold the bills until maturity, but they expect to rediscount them at one of the large banks; their profit lies in the difference between the discount which they get from the customer and that they have to pay the bank. The large stock banks of London are under normal circumstances willing to discount bills at about $\frac{1}{2}$ per cent less than the Bank of

England. Therefore the official bank rate is nearly always higher than the actual rate.

Interest rates in the two countries are equalized by means of finance bills. A finance bill is a draft drawn by a banker in this country upon a foreign bank for the purpose of realizing funds here for the time being and with the intention of meeting the draft at maturity by the purchase of demand sterling or cables. It is simply a method by which a banker borrows money in a cheap market and loans it in a dear one. For example:

Suppose the actual rate of discount in London is 5 per cent and that the rate in this country is 6 per cent. If a banker is able to borrow funds in England and reloan them in this country he will be able to make a profit of 1 per cent per annum, less the expense of doing business. A banker desiring to engage in this transaction is not obliged to actually borrow the funds in England and ship the gold to this country. He can accomplish the same purpose with less expense and loss of time by drawing a ninety-day draft against a London bank and selling it in the foreign exchange market and loaning the proceeds at the prevailing rate. The price he will realize for the ninety-day draft will be the price of demand drafts less a discount equivalent to the London rate.

It is not necessary that the banker have a deposit credit abroad. Under the conditions mentioned it would be unprofitable to have a deposit there when he might loan funds to such better advantage here. Lack of deposit credit does not deter him from drawing drafts upon the London bank if he can make arrangements with the bank for accepting the draft so presented in order to give it negotiability with the bill brokers. At the expiration of ninety days, however, he is obliged to have the funds in the London bank to meet the draft. These funds he provides by purchasing demand sterling a week or so before maturity in order to give plenty of time to reach England before the draft is presented. If he waits too long he must buy a cable.

The amount of his profit depends entirely upon the difference between the proceeds realized from the sale of the ninety-day draft (which are near the face of the draft, as the discount rate in England is low), plus the interest he has gained by loaning the proceeds, and the price which he must pay for the means of covering the draft at maturity, plus the commission for acceptance payable to the English bank, and the British Government tax on bills.

The banker who issues finance bills is forced to become a speculator in sterling exchange be-

cause his profit depends upon the price at which he can buy demand sterling or cables eighty to ninety days after the date of issue of the finance bills. If he wishes to make sure of a profit and shift the risk to others, he may make a contract at the time of issuing the finance bills for demand sterling eighty days after at a certain fixed price.

The issuing of finance bills has the same effect upon the market value of foreign exchange as bills rising out of commercial transactions. If they are issued in large amounts at any one time they depress the market, but when the time of maturity of these bills approaches, the purchases of demand sterling to cover stimulate the market artificially.

Arbitrage consists in buying or selling exchange on a certain center indirectly through a third city. For example, a banker wishing to increase his London balance would buy Paris exchange and instruct his Paris correspondent to use the proceeds of the bill in purchasing sterling in Paris, thus increasing his London balance by the triangular operation.

Suppose a banker had an opportunity to sell a draft on Paris but had no funds there. It would be very easy for him to sell the draft, purchase with the proceeds sterling exchange, remit it to London with instructions to purchase Paris ex-

change in London with the proceeds, and forward for credit to the Paris correspondent to cover the draft sold at first.

Suppose the quotations for the day were as follows:

Sterling exchange in New York.....	\$ 4.84
Paris exchange in New York.....	5.17½
Francs in London	25.25 per £

If he sold a draft for 25,250 francs, he would receive therefrom \$4,879.23 (25,250 divided by 5.175). To cover this draft in Paris by French exchange purchased in London, it would be necessary for him to buy sterling exchange at \$4.84. If 25.25 francs in London sold for £, he would be required to buy £1,000 in order to get 25,250 francs. This would cost him in New York at \$4.84, \$4,840. His profit would be:

Proceeds	\$4,879.23
Cost	4,840.00
	<hr/>
	\$ 39.23

His London banker would probably charge him 1-40 per cent for doing the business, which would cut down his profit by \$1.21, leaving it net at about \$38.00.

The quotations in New York for continental exchange are influenced largely by the price of

sterling exchange, both in New York and in Paris. If from any cause the price of continental exchange in New York should tend to fall to a point where there would be a profit in the arbitrage transaction, the demand for it on the part of the bankers who wish to make a profit from arbitraging would immediately force up the price again. Therefore, there is a certain relation existing between all the quotations of foreign exchange. When there is neither profit nor loss from arbitraging, they are said to be at par.

SECTION 46.—PROBLEMS IN MONEY AND BANKING

The Macmillan Company issued in 1917 a third and carefully revised edition of a standard work called "Outlines of Economics," written by Richard T. Ely, Professor of Political Economy in the University of Wisconsin; Thomas S. Adams, Professor of Political Economy in the Sheffield School of Yale University; Max O. Lorenz, Associate Statistician, Interstate Commerce Commission; and Allyn A. Young, Professor of Economics and Finance in Cornell University. It is used as a text-book in many of the more advanced educational institutions of this country.

In Volume 11 of that work is a chapter on "Problems in Money and Banking" by Professor Young, which is highly informative, expressed in plain terms, complete within its subject, and brought down and applied to the banking system and banking practice which prevail at present, and have proven themselves so well under the pressure of war that their permanence may be accepted. The substance of that chapter is here reproduced:

What determines the value of money? That is, the purchasing power of money as expressed by the money prices of other things. There is no such thing in fact as "the general purchasing power of money." Money has, in reality, a large number of different values, expressed by the different quantities of different things that it will buy. If the price of wheat is one dollar per bushel, then one value—the wheat value—of money is a bushel per dollar. Similarly, the purchasing power of money in sirloin steak may be found in pounds per dollar. But how blend sirloin steaks, wheat and other things into one concept? The notion of the general value of money is simply a useful abstraction, based on a broad view of all its different specific values.

But when we fix our attention upon changes in the various purchasing powers of money, we are able to make a distinction between changes that are widespread and general and changes that affect only one or two commodities. For example, a new invention may decrease the price of a particular commodity without affecting the prices of other things except (if the demand for the commodity is elastic) by shifting demand from other things to the commodity in question—an effect which would usually be slight so far as the price of any one of these other things is

concerned, for the demand would very likely be shifted from many different lines of consumption. Or if the demand for the commodity in question is relatively inelastic, a diminution in its price may increase the demand for other things. On the other hand, there are price fluctuations which are widespread and which show a general trend in one direction or the other, and these, with substantial accuracy, may be called changes in the value of money.

What are the underlying causes of these general changes in the values of money? The first impulse, perhaps, is to suggest that there is no new problem here, that the value of money is to be determined in the way that other values are determined, and to seek to frame an explanation in terms of marginal utility and the general laws of supply and demand. But the task is not so simple as that. The analysis of marginal utility, it is true, formed the basis of our explanation of the shifting of demand from one commodity to another, but it does not help us to explain the demand for money. Marginal utility depends upon the capacity of things to satisfy human wants, and money does not directly satisfy a single human want, except the abnormal wants of the miser. We want money

only as we want the things that money will buy for us.

Supply and Demand.—In discussing the relations between the prices of things and their supply and demand, we arbitrarily limited ourselves to the consideration of one commodity at a time. That is, we assumed that the money price of the one commodity we were considering was alone variable, and that the prices of all other things remained, for the time being, constant. The consumer whom we pictured as willing to buy a certain amount of a commodity at a certain price or a larger amount at a lower price, was, by our premises, merely comparing variable dollars' worths of the commodity in question with fixed dollars' worths of other things. All the values of money, save one, were held constant, so that the imaginary consumer simply had to compare the utility of larger and smaller marginal dollars' worths of the one commodity with their cost measured in a dollar that represented perfectly definite amounts of all other things. But the problem of the value of money (understood as the problem of general changes in the different values of money) cannot be approached in that way; for the problem of the value of money is merely the

obverse of the problem of the money values of all other things. If we were studying the wheat value of money we could assume the sirloin steak value of money to be held constant. But our present problem is that of the wheat value of money and the sirloin steak value of money and all other values of money. We can't resort to the strategy of breaking the sticks in our bundle one by one.

The Quantity and Values of Money.—Using the word money in its broadest sense, including all “rights to receive money” that are used in making payments, it is clear that every sale of a commodity may be viewed as a purchase of money, and every purchase of a commodity as a sale of money. Going a step farther, and remembering that one wants money only because of the things money will buy, we may say that every sale of one commodity is a purchase of the power of acquiring other things. A seller cares nothing about the quantity of money—the number of dollars—he gets in exchange for his goods, except in so far as these dollars have certain relations with other things, including the things he buys as a consumer and the things he pays for under the head of “expense of production.” Similarly, a buyer cares not how much money he parts with in exchange for a definite

quantity of goods, except in so far as the money has alternative uses of greater or less importance. The quantity of money—the number of dollars in the aggregate supply of the instruments in which payments are made—has no significance apart from the values of the dollars.

These two things—quantity and value—are in the case of money bound together in a peculiar way. They are, in a very real sense, not only interdependent but interchangeable. A small amount of money of high purchasing power per unit will meet the needs of both buyer and seller just as well as a larger amount of money of lower purchasing power per unit.

What are the conditions under which a general change in the values of dollars is possible? Let us simplify the problem by assuming that the change is absolutely general and uniform; that if, for example, the price of a bushel of wheat is seventy-five cents and the price of a bushel of corn is fifty cents, an increase in the price of wheat to a dollar and a half is accompanied by an increase in the price of corn to a dollar, and by a similar doubling of the money prices of all other commodities and services. Things retain precisely the same exchange relations as before, except with reference to money. If prices have thus increased, all the values of money have di-

minished by one-half. As an intermediary, then, as a means of obtaining other things, money has only half its former potency.

Sellers are demanding and receiving twice as many dollars as before for given quantities of goods; buyers are offering and paying twice as many dollars as before per unit of goods purchased. Remembering now that we are using the word money in its broadest sense, including exchangeable credit instruments, it is evident that twice as much money as before passes from buyer to seller in exchange for every unit of everything else that passes from seller to buyer. But this means that one of two possible conditions must exist. Either (1) fewer exchanges are being made, or (2) exactly twice as much money as before is being exchanged for goods and services. So we reach the very important conclusion that there must be a definite relation between general changes in the values of money and changes in its quantity. We need not as yet concern ourselves with the question of which of these two related things is cause and which is effect. But that these two things are inseparably bound up, the one with the other, should now be clear.

If the number of units of goods and services of every sort annually exchanged for money re-

mains constant, any increase or decrease in the amount of money used in making payments must be accompanied by an exactly proportionate general increase or decrease in prices. It is not necessary for the truth of this theorem that all prices should change in the same proportion. The general change in prices may, for example, be upward, but some prices may rise by a smaller proportion or may even fall, provided these are offset by sufficiently large increases in the prices of other things. An "exactly proportionate" general change in prices merely means such changes in specific prices as will make possible an unchanged volume of transactions with the increased or decreased number of dollars used in making payments. A general increase or decrease in price is of course identical with a general decrease or increase in the various specific values of money.

The Equation of Exchange.—Some aspects of the general relation between prices and the quantity of money can be conveniently represented by using algebraic symbols. Let M represent the total amount of money in circulation, and let V represent its rate of turnover, or velocity of circulation, that is, the average number of times the various dollars in circulation are exchanged for goods or services during the year.

Then MV will represent total money payments, measured in money units. Let T represent the total volume of trade, or, more accurately expressed, the total number of units of commodities and services exchanged for money during the year. Finally, let P represent the average price per unit paid for these commodities and services. The equation of exchange may now be stated in its simplest form:— $MV=PT$.

This equation, it is obvious, amounts to the statement that the quantity of money in circulation, multiplied by its average rate of turnover, is equal to the average price per unit paid for commodities and services, multiplied by the number of units sold. This, in turn, is equivalent to the yet simpler statement that the total amount of money paid for things during the year equals the sum of the prices of all the units purchased. Stated in this way, the equation of exchange is readily seen to be necessarily true.

Up to this point we have simplified our problem by counting as “money” everything, including credit instruments, expressed in terms of dollars and accepted in payment for other things. But there are some important problems connected with the relation of changes in the quantity of the generally accepted media of exchange (money in the “narrower sense”) to changes in

prices. So we shall now let M represent the quantity of the generally acceptable media of exchange, including metallic money, government paper money, and bank notes. The symbol M will be used to represent the quantity of the transferable "rights to demand money" that are used in making payments. These consist, almost entirely, of bank deposits subject to check. Then the equation of exchange becomes:— $MV + M'V' = PT$.

This is a statement in algebraic symbols of the fact that the amount of money in circulation, multiplied by its rate of turnover, together with the amount of bank deposits subject to check, multiplied by their average rate of turnover, must be equal to average unit prices, multiplied by the number of units of things exchanged for money or for deposit credit. This equation is identical with the other one, except that a distinction is now made between money and bank deposits. The principal advantage of the use of the equation of exchange, in fact, is that it enables us to discuss the relations between general changes in prices and changes in the amount of metallic and paper money, without becoming involved in difficulties of analysis and of exposition that would otherwise be very formidable. The problem becomes simply that of the rela-

tions between M and P in the equation of exchange.

If M and M' increase in equal proportion, while V , V' and T remain fixed, P must also increase proportionally. That is, all other things being equal, an increase in the amount of money in circulation and in bank deposits must be accompanied by a proportionate increase in prices. To what extent, in fact, are these "other things" likely to remain equal?

In the first place, a sudden increase in the amount of money in circulation is very sure to increase T , the total volume of trade, by leading to increased purchases. But in the long run the increase or decrease of the total volume of trade must depend upon the natural resources of the country, the productive energies of the people, and the degree to which division of labor has been achieved. It can have no permanent dependence upon the amount of money in circulation.

In the second place, a sudden increase in the supply of money is likely to bring about a temporary decrease in V , its velocity of circulation, because a larger amount of money may, for the time being, be kept idle. But with a given volume of transactions at given prices, V must in the long run depend very largely upon the habits

of the people with respect to the amount of "pocket money" usually kept on hand. Changes in habits of this kind are slow, and may safely be neglected in studying the movement of prices through even a considerable number of years.

In the third place, when we come to consider the effect of an increase in M upon the magnitude of M' , the amount of bank deposits subject to check, we find that these two things are necessarily connected. For an increase in M , the amount of money in circulation, is very sure to be accompanied by an increase in bank reserves. Additions to the country's stock of money will distribute themselves, ultimately, between bank reserves and hand-to-hand circulation, and the proportions of the country's monetary stock allotted to these two uses usually fluctuate only between more or less definite, even if gradually changing, limits. But an increase in bank reserves normally brings with it an increase on M' , the amount of bank deposits subject to check. Even in the absence of minimum reserve laws, the ratio of aggregate bank reserves to aggregate bank deposits is found, for the time being, to fluctuate around an approximately constant proportion. An increase in M , therefore is very sure to result in an increase in M' .

It follows, then, that despite a certain amount

of variability in the other factors in the equation of exchange, an increase in M , carrying with it a roughly proportionate increase in M' , must normally have as its most important concomitant a similar general increase in prices. This, it will be noted, is in harmony with the conclusion we had already reached without the aid of the equation of exchange. But that conclusion was stated in terms of the "amount of money (and credit instruments) exchanged for goods and services," the volume of trade being constant. We now see that a similar conclusion holds true when stated in terms of the quantity of money in circulation, the only qualifying factors being probable changes of greater or less importance in (1) the rate of turnover of money, (2) the ratio of the amount of money in bank reserves to the total amount of money in circulation, (3) the ratio of bank reserves to bank deposits and (4) the rate of turnover of bank deposits. Allowing for the influence of these qualifying factors, an increase or decrease in the quantity of money, the volume of trade being constant, must be accompanied by a proportionate general increase or decrease in prices. This principle, known as "the quantity theory of prices," has long been one of the most important theorems of economics.

General changes in prices must, of course, accompany changes in any of the factors in the equations of exchange unless these happen to counteract one another. If the volume of trade increases more rapidly than the supply of money, and other things remain equal, prices must decrease. This is the apparent explanation of the general fall in prices between 1873 and 1897. The growing use of checks in making payments is substantially like an increase in the supply of money. It increases the ratio of money in bank reserves to money in hand-to-hand circulation, and thereby increases the ratio of M' to M . Unless offset by changes in other factors, this must be accompanied by rising prices. An improvement in the organization of the banking system, making possible a smaller normal ratio of aggregate bank reserves to aggregate bank deposits, must also tend to increase prices. Along with a phenomenal increase in the quantity of money in the past twenty years there has been in fact a large increase in both the ratio of deposits to money and the rate of turnover to deposits.

The quantity theory of prices, even when stated in the form of the equation of exchange, tells us nothing about the process of general price changes; nothing, that is, about the mech-

anism by which a change in the quantity of money operates to bring about general changes in prices. No one has ever given a complete description or analysis of this process, and doubtless no one description would fit all instances of general price change brought about by changes in the quantity of money. But some aspects of the matter are tolerably clear.

Take an artificially simple case. Imagine an isolated community with no foreign trade and with no banks. Suppose that a group of men find a long-forgotten hoard of gold, large even as compared with the existing stock of gold in circulation. Without increasing their own activities as producers, the finders are now able to purchase larger quantities of goods. These additional purchases, it is important to note, are the direct result of the increase in the supply of money, and could not have been made without it. The merchants into whose hands the money comes in turn expend it to replenish their stocks and for other purposes. And so the money passes from hand to hand, increasing the number of exchanges—the volume of trade—just about proportionately to the increase in money.

But this increase in the volume of trade cannot be the end of the process. More goods than before are passing into the possession of their ul-

timate consumers. The country's stock of exchangeable goods is being depleted more rapidly than it can be replenished out of the country's normal agricultural and industrial output. In short, the purchasing power of the community, at the old level of prices, is now more than sufficient to buy the current output. Under the pressure of competing purchasers, desiring to exchange money for goods, prices will rise. And if the industrial output cannot be permanently increased the rise in prices will be proportionate to the increase in the money supply, so that finally the larger supply of money will have brought with it no permanent increase in the number of exchanges.

The conditions under which general price changes resulting from an increase in the quantity of money occur in actual life, are much more complex; and yet there is no reason to suppose that in its fundamentals the process is essentially unlike that which we have just outlined. There is, however, the difference that additions to the supply of money usually find their way at first into bank reserves, where their immediate effect is to lower the discount rate. This leads to increased bank lending and to large bank deposits, and the immediate purchasing power of the community, in the form of its power to draw

bank checks, is correspondingly increased. Increased purchases will be made, and so far as the immediate effect upon prices is concerned, it is immaterial that a large part of the increase may be in purchases of labor, raw materials, and supplies; i. e., in expenditures for "productive" rather than for "final" consumption. Prices must rise, and this will draw a larger amount of money into hand-to-hand circulation. With higher prices people will find it convenient to keep somewhat larger amounts of money on hand as "pocket money." Finally, unless new disturbing factors appear, equilibrium will be reached between the amount of money in bank reserves and the amount of money in hand-to-hand circulation. It seems probable, then, that the sequence of processes by which an increase in the supply of money actually brings about a general increase in prices may often be (1) larger bank reserves, (2) lower discount rates (3) larger bank deposits, (4) more purchases, (5) higher prices, (6) more money drawn into hand-to-hand circulation. Prices get their initial upward impetus from the larger bank reserves, but the increase in the amount of money in hand-to-hand circulation helps to support and maintain the higher price-level.

Thus far we have neglected to take account

of the very important facts: (1) that gold has other than monetary uses; (2) that the production of gold will itself depend in part upon its purchasing powers; and (3) that international gold shipments are also partly dependent upon the relative purchasing power of money in one country and another.

From the estimates of the Director of the Mint it appears that in recent years from one-fourth to one-third of the world's annual production of gold finds its way into industrial uses. The United States mints and assay offices refine nearly all the crude gold bullion produced in or brought to this country, and allow the depositor to take the proceeds in money or in bars of gold for industrial use as he prefers. But even without this convenient arrangement there would be a constant balancing or comparison of the relative advantages of the industrial and monetary uses of gold. The number of dollars which can be got by selling gold for money and by actually converting gold into money, must, of course, always be approximately equal.

There are, however, two things quite distinct from the direct process of selling gold bullion for money which help to fix the ratios of exchange between gold and other things. Consumers, on the one hand, are constantly weighing

the relative profit of producing things made from gold and things made from other materials. It is clear that gold will be distributed between its industrial and monetary uses in such a way as to equalize the exchange ratios of gold and other things for the two uses. If, for example, an increase in the stock of money (whether gold or not) results in increased prices; i. e., in decreased purchasing values of gold, a relatively larger amount of the gold annually brought to the mints will tend to flow into industrial uses, and thus to limit the increase in the amount of money and the consequent rise in prices.

Expenses of Gold Production.—There is another way in which society makes direct comparisons between the value of gold and the value of other things. Mining, like agriculture, is subject to the law of increasing expenses, and the tendencies of prices to equal the maximum expenses of production per unit holds true for both industries. Not only are there marginal mines, mines which it just pays to operate, but in the most productive mines there are margins—certain depths, for example, beyond which the expense of mining more than eats up the value of the product. Through the operators of mines, society is continually comparing the cost in labor and capital of the production of gold with the

cost, similarly measured, of the things that can be bought with the gold produced. If the gold produced at the margin will purchase things which consumers deem of less importance than other things which might have been produced with the use of no more capital and labor, capital and labor will gradually be shifted from their marginal use in gold mining to the production of other things which might have been produced balancing between the monetary and industrial uses of gold, we have a direct value-comparison of gold and other things.

The Bureau of the Mint some years ago undertook an investigation into the relation of the expense of gold mining to the amount of gold produced. The conclusion reached is worth quoting in this connection:

In every mining district there are mines producing at good profits, mines producing at small profits, mines barely paying expenses, and mines operated at a loss, but with the hope they will do better. Every increase in costs would submerge the latter more deeply, add to the list of the unprofitable, and probably close some of them. A higher scale of working costs will bring losing experiments to an earlier conclusion, reduce profits, and make mining ventures generally less attractive, and thus diminish the output.

To summarize:—Marginal utilities and subjective values are found in the industrial uses of gold. The particular form of the law of normal price that is operative in agriculture also holds true in gold mining (although it has to be stated in a somewhat different way). An increase in the supply of gold diminishes its marginal utility in industrial uses. This is bound to decrease the values of gold as money, on account of the ease with which the supply of gold can be shifted to one use or the other. Such a rise of prices, however, cannot continue indefinitely. The increase of prices and wages brings increasing expenses in gold mining, and unless new gold mines are found or cheaper ways of getting gold from old mines are invented, the output of gold will have to decrease.

These things have a steadying influence upon prices. Tendencies toward extreme fluctuations in prices are held in check by the resulting changes in the expense of mining gold and by the automatic changes in the proportions of the annual gold product that flow into monetary circulation and into industrial uses. It is in these ways that the significance of the fact that the monetary standard is itself a commodity appears.

Although probably more gold was produced between 1850 and 1875 than from 1492 to 1850,

yet the annual production of gold since 1896 has been from two to three times as large as it was between 1850 and 1875.

Most of this great output of gold comes from relatively few countries. At present the British empire supplies over one half and the United States (including Alaska) nearly one fourth of the total product.* The causes of this enormous increase were, in part, the opening of new gold fields in South Africa, Canada, Alaska, and the mountain states, and in part the improvements in methods of extracting gold from low grade and refractory ores, in which connection the development of the "cyanide process" has been of special importance. Dredging for gold in the beds of rivers which drain gold-yielding lands is a very recent development of considerable importance. Notwithstanding the decrease in the value of gold, the bulk of the gold produced in California today is from ore bodies that twenty-five or thirty years ago were generally considered worthless.

The effects of this enormous output have been felt in both Europe and America in a general increase of both prices and wages. There are some who expect that the values of gold will continue to depreciate for a long time in the future.

*The world-production of gold is about \$500,000,000 a year.

Account must be taken, however, of the automatic check which the increase in wages and prices is bound to put on the production of gold by increasing mining expenses. On the other hand, still further economies in productive methods are possible.

Increase in the amount of money available for bank reserves leads to the expansion of credit, stimulates business, and increases prices. The same results are achieved, although not in the same way, by a sudden debasement of the standard of value, or by the introduction of irredeemable paper money as the medium of exchange. Prices are gradually increased under such conditions, there being an unmistakable tendency to adjust them to the change in the dollar or other unit of the medium of exchange. The rising prices stimulate business by increasing profits. Profits are increased because most of the expenses of production are incurred before the goods are sold, so that the rise in prices increases the margin between prices and the expenses of production; and because, moreover, some of the expenses of production do not usually rise as rapidly as do prices. An expansion of business activity of the kind already described is apt to be the result, and this is not generally soon restrained by insufficient bank reserves, for depre-

ciated money is usually, though not always, money that is coined or issued in large quantities.

Periods of prosperity induced in this way are inevitably short-lived and usually end in severe crises, but this does not make them any the less real. Nor should the fact that such artificial conditions of business are apt to be accompanied by excessive speculation and other unhealthy features, blind us to the fact that they accomplish some good. The encouragement given to venturesome undertakings lead to the trial of new methods of production, to the development of new natural resources, to undertakings of vast proportions, to a general freeing of industrial organization and methods from the restraints of habit and tradition. The foundations of modern large-scale industry in the United States were laid in the period between the civil war and the panic of 1873. The period of state bank note inflation preceding the panic of 1837 was a period in which the industrial map of the United States was almost wholly changed—and in the long run for the better.

A rapid increase in the supply of standard money may have a similar effect. A tremendous expansion of international trade followed the gold discoveries in California and Australia. In

the sixteenth century, increases in the supply of the money metals, historians are agreed, hastened the fall of the medieval economic system. The almost unparalleled development of industry and industrial organization in the United States since 1897 must, with its good features as well as its bad, be attributed in part to the increased supply of gold.

Business prosperity, however, does not always coincide with the real economic welfare of the masses of the people. If prices are rising faster than money wages, real wages are obviously declining. A period of falling prices is very apt to be a period of increasing well-being for those whose incomes are wages or salaries, although here we have to remember that even if daily or weekly wages do not fall so rapidly as prices, an increase of unemployment may affect total yearly incomes adversely.

Crises are frequently recurring phenomena of current economic life. They are of all degrees of severity, but are generally characterized by a scarcity of bank credit, a sudden drop in prices, a subsequent period of industrial depression, lack of employment for wage earners, and kindred symptoms.

Crises are frequently attributed to "overproduction," or when that expression is criticized

(because human wants are never fully satisfied) to "under consumption." The two expressions are different ways of describing the same thing, and both are misleading because they put the emphasis in the wrong place.

Production and consumption have to do with quantities of things and their fitness to satisfy human want. Crises spring from mishaps in the price process; they relate to what might be called the dollars and cents aspect of economic life. It is difficult, even impossible, for observers to analyze all the factors entering into a particular crisis, and it is even more difficult to formulate a theory of crises that will be of general applicability. There are some important things about crises, however, that are relatively well known.

It is a significant fact that crises generally occur only as sharp interruptions of periods of business prosperity, when credit is abundant, prices relatively high, and employment plentiful. Whatever may be the cause of a period of exceptional business prosperity it is apt to contain within itself the seeds of its own destruction. The point will appear clearly if we put together two conclusions: first, that the supply of loanable funds in the form of bank credit is a function of two variables—the supply of personal credit, and the supply of money available for bank reserves;

second, that personal credit is based on the probable amount of future money incomes and probable future prices of property.

Suppose, for example, that business conditions are prosperous, and promise to continue so, and that there is a plentiful supply of money in the bank reserves. Expected prices and expected profits are large, expected interest payments seem certain. The power to get this future income depends, however, upon the possession of land, capital goods, franchise and other privileges, the established business relations that give rise to "good will values," or upon the possession of income-yielding securities such as mortgages, bonds, and stocks. Under such conditions, these things command good prices in the market and may easily be hypothecated, either formally or implicitly, in order to secure purchasing power—bank credit. The bank credit thus created is put into further investments of capital and into the creation of further business opportunities. These things serve in turn, so long as their income-yielding power seems certain, as the basis of further extensions of bank credit; and thus the process of business expansion continues in a cumulative fashion.

Overproduction, it is true, is present, but it is the overproduction of the means of production

and of acquisition—of railways, factories, and business schemes—and it is accompanied by the overappraisal, the overcapitalization, of these things. An extensive period of increasing prosperity of this kind is, however, scarcely possible unless the supply of money is increasing; for bank reserves as well as the amount of expected personal incomes condition the supply of purchasing power. Very often, in fact, it may be a sudden increase in the supply of money available for bank reserves that gives the initial impetus to the rapid expansion of business. Larger reserves, lower discount rates, larger investments, an increased volume of trade, is the normal sequence in such cases. Periods of rising prices are periods of rising profits; for fixed charges, the rate of interest (even on new borrowings), and wages, do not usually rise as rapidly as prices. These rising profits are, of course, the direct cause of the overinvestment in production goods and the overcapitalization of business opportunities.

Any one of a number of things may be sufficient to precipitate a panic under such conditions. The whole business structure may fall to pieces through sheer topheaviness. That is, so much production today is indirect, so large a share of productive effort is devoted to forwarding in

indirect ways the production of goods that will be ripe for human use only in the comparatively distant future, that the mere operations of supply and demand among business men themselves may maintain prosperous business conditions for some time. But in the long run the maintenance of the values of the producer's goods and privileges depends on the demand, and hence on the income, of ultimate consumers. Wages do not usually rise as rapidly as prices in periods of business expansion. This simple fact may in itself keep the average purchasing power of consumers from expanding rapidly enough to furnish a solid support for the growing structure of capital values.

Crop failures may precipitate a panic by diminishing the purchasing power of those engaged in agriculture, and possibly, by reducing exports, and thus necessitating the taking of gold from the bank reserves to ship to Europe in payment for our imports. When the credit situation is at all strained, the failure of one important bank may be enough to precipitate a panic. The bank's creditors are prevented from meeting their own obligations; the solvency of others is in turn dependent upon them, and thus losses in expected and often already hypothecated income are transmitted from firm to firm and from industry to

industry in a constantly widening circle. The reduction of bank reserves by reason of the flow of money into hand-to-hand circulation in order to effect exchanges at the higher level of prices, may itself be a contributing cause of a panic.

Whatever may be the immediate cause of a panic, it is bound to grow, in a condition of inflated capital values, with tremendous rapidity. The collapse of credit leads to forced sales of property in order that credit obligations may be met. These reduce prices, lessen the security on which credit is founded, and render banks less able and less willing to make loans. Moreover, the hoarding of money, which is apt to be a feature of a panic, has a destructive effect on bank reserves. In a serious panic the liquidation of obligations has to work itself out. Then the industrial process starts afresh, with lowered values imputed to capital goods and to business opportunities, and with property rights shifted, in some measure, to creditors.

Crises seem to be unpreventable so long as competition and the credit system dominate in industry. Yet there are some recent developments that may make them less frequent, and possibly less serious.

The "integration of industry," whereby a whole series of productive processes, from the

production of the raw material to the sale of the finished product, are brought together under one management, decreases the number and complexity of credit relations between producers, and tends to prevent the undue expansion of those parts of the productive process that are farthest removed from the consumer. The strong position of the steel industry in the United States is a case in point.

The improvements in the bargaining power of wage earners resulting from their organization have enabled them partly to prevent the widening of the gap between wages and prices in prosperous times, as recent American statistics show. On the other hand, crop failures are and always will be a factor of uncertainty. The best way of softening the rigors of a panic and of restoring normal conditions promptly is through a wise use of the lending power inherent in a system of really elastic bank reserves, just as the best way of preventing panics is through a firm control of discount rates when all other conditions are ripe for a period of business inflation. It is in these ways, perhaps, that the new federal reserve system can best serve the country.

The relation of changes in the purchasing power of money to long-time debts and credits

has some very important aspects. If prices increase, the principal of a loan represents less purchasing power at the time of repayment than at the time the loan was made. If prices decrease, the reverse is, of course, true. In periods of cheap-money agitations the additional burdens imposed upon debtors in a period of decreasing prices are emphasized. An important function of money, then, is found in its use as a standard of deferred payments.

There is a partial, but only partial, compensation for the injustice to debtors and creditors resulting from general changes in prices to the fact that the interest rate usually increases when prices increase and decreases when prices decrease. This is largely because rising prices increase profits, thus inducing business men to pay higher interest rates in order to secure larger supplies of funds for investment; while falling prices decrease profits and lessen the demand for loanable funds. The result of this is that the changing purchasing power of the principal of a loan is to some extent offset or discounted by changes in the rate of interest. The decline in interest rates as prices fall makes it possible for debtors to pay off their old obligations with funds borrowed at a lower rate of interest. Creditors cannot so easily take advantage of the fact

that interest rates are increasing when the purchasing power of the principal of their outstanding loans is decreasing. Nevertheless, more emphasis has been given to the question of the standard of deferred payments in periods of declining prices, when debtors are injuriously affected, than in periods of rising prices when creditors are the losers.

The United States is rapidly ceasing to be a "debtor nation," and the farmers in particular are becoming less distinctively a debtor class. We may expect, therefore, that in a future period of declining prices we shall hear less about the injustice of our variable standard of deferred payments.

Index Numbers.—General changes in prices are indicated statistically by the use of index numbers. An index number, in the most general sense, is some magnitude which varies with some other magnitude or complex of magnitudes, and whose variations can therefore be taken as representing or indicating the other variations. In studying the variation of the price of some specific thing we need no index number; but when we have to deal with the variations of many different prices we find the use of index numbers necessary.

The simplest way to form an index number of

general changes in prices is first to select a list of things whose prices are to be taken into account, next to ascertain the average price per unit paid for each of these things in each successive month or year of the period being studied, and finally to take the sum of these unit prices in each of a number of successive months or years as the index numbers. Such index numbers show the variations in the total expense of a purchase consisting of one unit each of the commodities included in the list.

Thus, if bananas of a certain grade sell at a certain time for 15 cents a dozen, oranges at 40 cents and peaches at 25 cents; and if a month later the prices are 20 cents for bananas, 50 cents for oranges, and 20 cents for peaches, the summed prices used as index numbers are 80 cents and 90 cents respectively. This means merely that the total money cost of a dozen each of these fruits has increased by $12\frac{1}{2}$ per cent.

For some purposes we get more significant results by weighting the specific prices in accordance with the relative importance of the different commodities. If, for example, we think that twice as many bananas as peaches were ordinarily used, and three times as many oranges as peaches, we may take as our weighted sum at the earlier date: 25 plus (2×15) plus (3×40) , or

\$1.75. For the later date the weighted sum is \$2.10, indicating a general rise of 20 per cent in the retail prices of this small group of commodities. Accurate weighting is thus of great importance in forming index numbers from a small list of price quotations. If a very large list of prices is used, weighting becomes of less importance, for there is no necessary connection between the importance of a commodity and the degree to which it has risen or fallen in price. Errors due to the lack of weighting or to imperfect weighting thus tend to offset each other. But even with a large and thoroughly representative list of prices, the highest degree of accuracy in index numbers cannot be reached without careful weighting.

Index numbers of prices and wages are available for the United States for the period since 1860, and some figures have been compiled for earlier years. For the period 1860-1880, Mitchell's are the best; the period from 1890 to the present is covered by the United States Bureau of Labor Statistics, and for the gap from 1880 to 1890 Falkner's are available. Several financial journals also publish tables of price changes.

Some writers have suggested the possibility of a tabular monetary standard, to be maintained by frequently changing the money unit in ac-

cordance with the showings of an officially kept system of index numbers. To do this by periodically altering the amount of bullion in standard coin would be impracticable, while to abandon the use of a standard commodity and to attempt to regulate prices by issuing fiat money and controlling the amount in circulation would be, as we have seen, chimerical. A tabular standard of deferred payments might be put in operation by laws providing for the increase or diminution of the principal of debts according to changes in prices. It is probable, however, that this would be satisfactory to neither debtors nor creditors. Moreover, should the tabular standard of deferred payments be adjusted according to changes in wages and other incomes, or according to general changes in the prices of commodities and services? The really essential thing is to have a commodity standard of value that shall be as stable as possible, and to maintain the convertibility of all other forms of money with it.

With gold as the standard of value, and with all other forms of money redeemable in gold, changes in prices are not apt to be rapid enough to work much injustice to either debtor or creditor.

SECTION 47.—CORPORATIONS IN GENERAL

Advantages.—The growth of business within the past years has been such that its prosecution and development have called for the use of capital to an extent far beyond the purse of any individual. This called for either the partnership or the corporation, that the combined resources of a number of men might be enlisted to carry on the desired projects.

The partnership was the easier, more informal method of association, but with its recognized drawbacks, chief of which were the liability of each partner for the debts of the entire enterprise and the legal effect of the death of any one of the partners working an automatic dissolution, leaving the survivors as trustees for the settlement of the partnership interests and the rights of the representatives of the deceased.

On the other hand, the corporation was the more formal method of association, with the distinct advantages of (1) duration for a specified number of years or perpetually, according to the laws of the state of its incorporation; (2) limitation of liability of its stockholders; (3) not being affected by the death of any stockholder; (4) the right to transfer of individual interests by the

sale of one's stock; (5) the right to deal and contract with its own stockholders and, under certain conditions, with its own officers and directors; (6) its more effective management by a board of directors and officers chosen by the body of the stockholders, and (7) the greater ease of attracting capital for the prosecution of its business.

Duration.—Unlike a partnership, a corporation continues to exist for the full period of its fixed life as specified in its charter. This may be for any given term of years not exceeding, however, the limit prescribed in the statutes of the state in which it is incorporated. Even in states where a limit is fixed, the corporate existence can be continued under provisions therefor in such laws. Death, insolvency, insanity, disagreements between members cannot disturb the life of the corporation, while under the partnership form of doing business, any one of these would be termination of its existence. The corporation can only cease to exist (1) by expiration of its chartered term; (2) by a voluntary dissolution, usually on unanimous consent of its stockholders; (3) its insolvency or (4) by the forfeiture of its charter by the state.

Limitation of Liability.—Under the corporate form of doing business, the liability of the indi-

vidual stockholders may be said to end with the full payment for the stock held, or of stock subscriptions made by them. This liability is first to the corporation itself, and indirectly to the creditors of the corporation to the extent of any such unpaid portion. But when stock is fully paid for, it is almost without exception, the rule that there is no liability attaching to the stockholders for the debts of the corporation. In the case of banking corporations another rule applies, as there is practically a uniform liability on the part of the stockholders to an amount equal to the par value of their stock in the case of the insolvency of the institution. This provision is made for the express purpose of giving added security to the depositors, either in case of the failure of the bank or any impairment of its capital. In a few states there is a liability on the part of the stockholders for debts due employees. The stockholder owning full paid stock may, in the case of corporate disaster, see his investment swept away, but his loss is limited to the extent of his stock holdings.

Transfer of Interest.—In the corporation the interests of the owners are represented by shares of aliquot parts of the whole, and such ownership is evidenced by certificates of such shares, issued by and in the name of the corporation, and under

its seal and the signature of the duly appointed officers. These certificates are readily transferable by endorsement in the case of sale or gift, to the new owner, who may, upon surrender of the endorsed certificate or certificates, have new ones issued direct to him by the corporation.

In the case of the partnership, where the right of selection of the individuals composing it is zealously guarded, no partner may transfer his interest without the consent of the others, nor any part of his interest. But with the corporation, the certificate of stock is like any other property that one may sell or dispose of at will.

Right of Contract.—The corporation is vested by law with a distinct individual existence of its own, and thus becomes endowed with the right to sue and the liability to be sued the same as a natural person. The corporation may contract in its own name the same as an individual. Its stockholders and officers may even contract with it, but their acts must not be to the prejudice of the corporation, although they may be profitable to the stockholder or officer. It follows that such stockholders and officers may sue to enforce their contracts with the corporation, while in the case of a partnership, a member may not contract with it or sue it, even to enforce his personal obligations.

Conduct of Business.—No more efficient manner of handling the affairs of business has ever been developed than that of the administration of the activities of the corporations. The scope of its business is set forth in its charter and in it and in its by-laws are to be found the details of its own organization for the conduct of its business. Its stockholders elect the directors into whose hands all of its interests are committed, and they in turn select the officers through whom it shall function. In the conduct of its affairs it may go outside of its stockholders to secure the best services obtainable for its business, and many officers are not required to be either directors or even stockholders.

It is the province of the stockholders to make all necessary provisions in the by-laws for every check and safeguard, and to so organize each department that it shall operate to its fullest efficiency. This requires great care and skill in the formation of the organization and in the drafting of the by-laws, so that all needed latitude may be given the officers and yet all prudent checks thrown around their authority. To this end the board of directors must direct and not be a dummy board. Such is its duty, and it has been found that safety and success follow where frequent board conferences are held and at stated

times all matters of importance pertaining to the business of the corporation are brought up, discussed and decided. Watchfulness is just as important in corporate affairs as in one's own individual matters.

Interesting Capital.—Without the protection afforded by the corporate form of business organization, capital would be wary in the matter of investing. Capital insists that the hazards be limited to those of the business itself, and not subject to the misfortunes of any of those connected with the enterprise. In the corporation the investor knows and can limit his risk and at the same time is able to judge of the probability of success without having to figure whether any of the others associated in the undertaking may or may not become personally involved in other transactions and so in turn involve his own investment.

Capital wants to know that its interest may be sold and transferred without the necessity of gaining the consent of any other person, and without formality. It wants to know that its investment is the limit of its liability and that according to such investment may be its voice in the management of the concern.

Corporations for Small Business.—It should not be assumed that the corporate form of doing

business is for the great enterprises only, those who must needs gather together vast sums of money. It is just as valuable for the small business. In fact it is even more important for the two or three men of limited means, who would pool their entire resources, that they safeguard their all by the protection that incorporation affords. With them there is even a greater danger that personal disaster may overtake one of them, and in turn, engulf the enterprise and make their joint endeavor liable for the debts of one of their number. In the matter of inducing others to come in and join small enterprises, the corporate form is by all means preferable and more attractive.

SECTION 48.—CORPORATIONS

STEPS IN INCORPORATING

The Corporate Name.—The first step in the organization of a corporation is to decide upon its name. This must be stated in the charter or certificate of incorporation. When allowed, it becomes both the name and the property of the corporation exclusively, and necessary legal steps may be taken to prevent its use or the use of a name so similar as to be calculated to deceive.

By the same token it follows that the name thus selected must not infringe upon any name already used by some other corporation, either organized under the laws of the same state or, being a foreign corporation, licensed to do business within the state. Hence it is advisable to inquire of the Secretary of State if the name selected may be used before taking any further steps.

Purposes.—Generally speaking, a corporation may be organized for any lawful purpose. But under the general corporation laws of the different states corporations organized thereunder may not engage in banking, insurance or as common carriers, unless they are organized under special laws pertaining thereto. But so far as general business is concerned, the corporation

may be formed to carry out the business planned by the incorporators.

The next step, therefore, is to determine the purposes for which the corporation is to be formed. In doing this and more particularly in setting them forth in the charter or certificate of incorporation it is of vital importance that they be fully stated, as a corporation, being a creature of statute, has no more or broader powers than are specified therein and such as are incidental thereto and comprehended thereby. For that reason it is the practice of corporation lawyers to include in their clients' charters or certificates of incorporation, the fullest powers permitted by law, so as to enable the corporations to do almost anything.

Where to Incorporate.—The selection of the state in which to take out the incorporation is often of the greatest importance. It is not necessary that the corporation be organized under the laws of the state in which it proposes to do business. Any state may be selected where the incorporation laws afford the proposed corporation the widest latitude in the conduct of its affairs, in the amount of authorized capital permitted as well as the state fees and various other phases. That is why many of the largest corporations doing business in New York City are incorporated under

the laws of Maine, New Jersey, Delaware and other states. These great industrial giants extend their activities into many states and are, in order to conduct their business most economically, compelled to engage in many different lines of business, from mining, refining ores, maintaining and conducting homes and stores, to operating railroads and steamer lines, all in addition to their manufacturing enterprise, but as a necessary part of it, and they therefore sought the state giving them the necessary breadth of powers in their charters.

The state fees on incorporation are also another very important factor with the large corporations. Take the case of the United States Steel Corporation. Had it been incorporated under the laws of the State of Pennsylvania, its seemingly logical state, the fees would have amounted to something over \$3,500,000. While in New Jersey, the state in which they are incorporated, such fees amounted to only \$220,000.

Local Corporations.—In the case of the usual small corporation, whose business is more closely confined to a given locality, it is generally advisable to incorporate under the laws of the state where its principal office or place of business is to be situated. In many instances where a local corporation has been formed under the laws of

some other state, and it seeks local capital in the promotion of its business, there is apt to be an undercurrent of suspicion that there was some ulterior motive, something planned that would not have been permitted in the home state. Where local capital is sought, often the opinion of local counsel is requested, and when the incorporation is in the home state, and the counsel is familiar with the provisions of the laws, he is in a better position to advise his clients than where the incorporation has taken place in a state with whose incorporation laws he may be more or less unfamiliar. In short, it is best to incorporate at home unless there are controlling reasons for seeking a charter at the hand of some other state.

Capitalization.—Another very important step in the organization of a corporation is the determination of the amount of capital of the new enterprise. In this connection it should be clearly borne in mind that lack of sufficient capital is the chief cause of business failures. It is not to be inferred that the amount specified in the charter of a corporation has anything to do with it, but it is important in determining the amount to be stated in the charter for the reason that care should be taken to provide ample funds to carry the new venture through its most trying period—the first two years of its existence. If the amount

stated in the charter is ample, and the incorporators arrange to make it promptly available, the venture is far more likely to succeed than if it were launched on the too sanguine hope of being able to "get by" with less.

Here again the question of the state in which the incorporation shall be had becomes important, as in many states there is a provision that the corporation shall not begin business until a certain per cent of the capital stated in the charter shall have been paid in in cash or in its equivalent in property. In Illinois it is fifty per cent. In New York one-half of the authorized capital must be paid in within one year from date of incorporation and the amount with which the corporation will begin business stated in the certificate of incorporation. These provisions, while embarrassing in some instances, are lacking in the requirements of other states, but they are aimed to assure, as far as possible by law, that the new corporations shall be sufficiently well financed to at least make their ultimate success feasible. Most of the states have a minimum of permitted authorized capital, generally \$1,000.

Kinds of Stock.—With the amount of capital settled, the next question is as to the kind or kinds of stock that the corporation shall have. The stock may be either with a fixed par value or

the newer and rapidly becoming popular no-par-value, or a combination of both. If the stock is all of one kind, it is all "common" stock, whether it have a par value or not. A portion of the stock may be "preferred" stock, and the balance "common" stock, with or without par value. The kind or kinds of stock and their par value, if any, together with the number of shares of each, must be set forth in the charter or certificate of incorporation.

Par Value Stock.—The most common class of stock is that which has a definite or fixed par value, and into which the authorized capital is divided. The par value may be such sum as the incorporators decide, so long as the amount conforms to the provisions of the laws of the state of incorporation. Such stock is "full paid" when the amount of such par value has been once paid into the treasury of the corporation either in cash or in such property as the board of directors shall decide to be reasonably worth such par value and lawful and suitable to the purposes of the corporation.

No-Par-Value Stock.—Of recent years there has been permitted the issuance of stock having no par value, but which finds its value in the relation of the number of shares issued and outstanding to the total net assets of the corporation.

New York was the first state to authorize the issue of such shares, and the practice has followed in many others. In Illinois it is required that the assets of the corporation be not less than \$5 for each share of no-par-value stock issued. Under this arrangement the corporation may sell such stock for the best price obtainable, and just as in the case of stock that has a fixed par value, the value is the relation of the outstanding shares to the assets of the corporation.

Preferred Stock.—Preferred stock is that which is entitled to some preference or right over other stock of the same corporation. This is usually in regard to the payment of dividends and the distribution of the assets in the event of a liquidation. In most cases the holders of preferred stock are entitled to be paid dividends out of the surplus net earnings of the corporation to a certain rate, before any dividend is declared or paid on the common stock. In many cases preferred stock is used as a means of securing funds for the corporation instead of resorting to the issue of bonds, and most frequently where the corporation is not possessed of property at its inception that might be mortgaged to secure such an issue, as the preference in case of liquidation or dissolution means that the preferred stockholders are to be paid in full before any sum is paid to the

holders of the common stock, hence preferred stock as a rule is more desirable for the investor.

Cumulative Dividends.—In connection with the issue of preferred stock, the preference as to the declaration and payment of dividends, may be either cumulative or non-cumulative, as provided in the charter or certificate of incorporation.

By the term “cumulative” dividends is meant that if the specified dividends are not earned in any one year, they must be added to the dividends on the preferred stock for the following year, so that all current dividends as well as all in arrears must have been paid to the preferred stockholders before any dividends can be declared or paid on the common stock.

Non-Cumulative Dividends.—If the preferred dividends are “non-cumulative” that means that if they are not earned, declared and paid in any one year, the preferred stockholders lose their right to them for such year, and that there are no arrearages to be made up before any dividends may be declared and paid on the common stock. It follows that the “cumulative” dividends are the more attractive to investors, as they most closely approximate the regularity of the payment of interest on bond issues.

Preferred Stock Voting Powers.—Owing to the fact that the issue of preferred stock is so

generally a substitute for a bond issue in the raising of corporate funds, it is frequently provided that the preferred stockholders shall have no voting powers at any meetings of stockholders, but that the same shall be confined to the holders of the common stock. This is optional with the incorporators but as the holders of preferred stock are frequently given a certain amount of common stock as a bonus, the withholding of voting powers from the preferred stock does not deprive the owners from a voice in the management of the affairs of the corporation, as they vote on their shares of common stock, whereas to give voting powers to the preferred stock as well, would, in effect, double the voting powers of such stockholders, often to the detriment of the owners of the common stock.

Preferred and No-Par-Value Shares. — It is becoming more common to issue preferred stock with a fixed par value, dividends to be either cumulative or non-cumulative, and to make the common stock of no par value. This may be done in all states where no-par-value shares are permitted. No-par-value shares are also being issued as additional issues on increases of the capitalization of existing corporations, and irrespective of whether the outstanding shares are all common or common and preferred. In such

cases the right to increase the capital through additional issue must be obtained from the state in which the corporation was organized.

Number of Directors.—Next in order is the selection of the number of directors of the corporation. This is determined in the first instance by the incorporators, and the number is stated in the charter or certificate of incorporation. The statutes of the different states provide usually a minimum as well as a maximum number of directors for business corporations, and such minimum is not less than three. It is permissible for the corporation, at a later date, to increase or decrease the number of directors by complying with the provisions of the statutes, but not so as to violate the limits prescribed as to the number.

Qualifications of Directors.—In most of the states it is required that the directors shall be stockholders of the corporation, although in New York this may be waived by proper charter or by-law provision. It is in most cases advisable that the directors be stockholders, irrespective of the provisions of the statutes, as experience shows that stockholders are more apt to have the interests of the corporation than outsiders, even if they are chosen to serve on the board. The provision in New York that directors may

be selected from other than stockholders is to enable corporations to bring to their directorate the best talent available without the requirement of even the ownership of a single share of stock. But as above stated, the better practice is to require that they be stockholders.

Most states provide that at least one of the directors be a resident of the state in which the incorporation is had. This means that if the incorporation is had in another state than the one in which the business of the corporation is to be conducted, that a resident director must be selected. Because of this provision, there have come into being in the states that make an appeal for incorporation of outside companies, companies or law firms who make it their business to furnish the resident director and to attend to all legal matters within such state, even to maintaining the office therein which may be required by law.

How Elected.—The directors for the first year are usually named in the charter or certificate of incorporation. Those to serve for the ensuing years are chosen by the stockholders at the annual meetings of the corporation. Vacancies in the board, occurring during the term, are usually filled by the remaining directors, such directors thus chosen serving until the next

annual meeting. This is, however, a matter that is provided for in the by-laws of the corporation. In Illinois the directors for the first year are elected by and from the subscribers at their first meeting, all of whom are consequently stockholders.

Terms of Office.—Generally the term of office of the directors is for one year. It is permissible, however, for the directors to be divided into three classes, the term of office of the first class to expire at the date of the next annual meeting, the second class one year later and the third class two years later. This arrangement involves the retirement of but one-third of the board each year and the election of each class to three year terms. But in the average business corporation, where the directors include the principal owners and interested parties, there is little to be gained in such division of the board into classes with different terms or times of expiration of their office. It, however, has its advantages in the larger corporations, where it is advisable to maintain in office those who have become familiar with the business of the corporation and its policies, and not to subject them to any sudden change by the election of an entirely new board.

Amount of Capital to Begin Business.—In most of the states it is necessary to state in the charter

or certificate of incorporation the amount of capital with which the corporation will begin business. This, in most instances, may not be less than \$1,000. This does not mean that the capital of the corporation is limited to that amount, but that, irrespective of its authorized capital, it will not begin its career as a corporation until that specified sum has been paid in. The corporation would then arrange to secure the necessary amount of capital for the prosecution of its business by sale of its stock or in other ways, but it could not legally begin to do business until that minimum amount had actually been paid in. This amount is usually fixed in the charters at the minimum required by law, and that sum is actually paid in, in cash, so that there is no question as to the stock being in fact full paid, for the incorporators or subscribers become liable to the state and to creditors for the full amount thus named in the charter.

Illinois Rule.—In Illinois the provision is more rigid, as it is necessary that one-half of the entire authorized capital be paid to the commissioners (the incorporators) at the time of the first meeting, and the incorporation is not complete, and the company has no corporate organization until that is done. It is not necessary in Illinois or in the other states that the amount necessary to

be paid in before the corporation can begin business be in actual cash, as it may be paid in in property necessary and useful to the purposes of the corporation, provided it is the fair cash equivalent as certified to by the directors or the commissioners as the case may be.

CHARTER OR CERTIFICATE OF INCORPORATION

General Form.—The different states have prescribed the general form of corporate charters or certificates of incorporation, and the matters that must be set forth therein. In each state may be found printed blanks drawn in conformity to the provisions of the local statutes, and in the main they should be followed in the preparation of the charter.

Signing and Acknowledging.—It is necessary that each of the incorporators sign and acknowledge the charter application. If there are but three or four, and they all come together in one place at one time, the matter is a simple one, for all acknowledgments are taken at the one time and a single notarial certificate suffices for all. But if the incorporators sign at different times and in different places, then there must be a separate notarial certificate as to each signature. If the signers live in different states, then

to the notarial certificate of the officer taking the acknowledgment, there must be affixed by the clerk of the country wherein the same was taken, his certificate as to the due appointment and authority of such officer.

Filing.—In some states it is necessary to secure the approval of the proposed incorporation by some court or judge thereof before presenting the same for filing. The different states have their own regulations as to where and how the applications are filed, and these must be followed. In most states the proposed charter or certificate of incorporation is sent direct to the Secretary of State, together with the necessary fees. In other states, while the application is sent to the Secretary of State, the state fees are paid to the State Treasurer and he in turn notifies the Secretary of State that the same have been paid, whereupon the Secretary of State admits and files the document. Again, it is provided that the charter shall be filed with the Clerk of the county wherein the corporation shall have its principal office before filing with the Secretary of State, while other states provide exactly the reverse.

Not infrequently inadmissible provisions are inserted in charters, and these make it necessary for the Secretary of State to return the application so that the objectionable matter may be eliminated.

Certified Copies.—In certain of the states a certified copy of the charter or certificate of incorporation is issued by the Secretary of State under the great seal of the state as a part of the regular routine, while in others all that is done is for the Secretary of State to acknowledge the receipt and acceptance of the charter. Many corporations prefer to have a certified copy of their charter issued to them, and which may be had, even in states where that is not a part of the regular routine, upon the payment of the necessary fees therefor. If, under the law, certified copies are to be filed in local public offices, they may be secured from the Secretary of State.

Charter Amendments.—Provision is made in the corporation laws of all the states for amendments to the charters or certificates of incorporation of incorporated companies. Most of these are the result of too hasty or careless preparation of the original charter, while in other cases, some modification of the business of the corporation makes such an amendment desirable. It usually requires the action of two-thirds of the stockholders to effect an amendment, and in some states application must be made to the courts and in others publication is required. At such meetings of the stockholders it must be clearly stated in the notice of the meeting what the proposed

amendment is to cover or consist of, and the meeting must be called in conformity to the provisions of the by-laws. The papers on such amendment must be filed as provided for filing the charter.

Specimen Charters.—In order to more fully set forth the various elements embraced in corporation charters or certificates of incorporation, and the form in which they are to be prepared, there are subjoined specimen charters or certificates of incorporation under the laws of the States of New York, New Jersey and Illinois. A careful examination of them will show the relation between the foregoing text and the necessary matter to be included, so as to conform to the provisions of the statutes of the different named states, which may be taken as illustrative of the requirements throughout the country.

**NEW YORK CHARTER
CERTIFICATE OF INCORPORATION
OF
HOPKINS MANUFACTURING COMPANY**

We, the undersigned, all being of full age, and two-thirds being citizens of the United States and one of us a resident of the State of New York, for the purpose of forming a corporation under and pursuant to the provisions of the Business

Corporations Law of the State of New York, do hereby certify, in duplicate, as follows:

First: The name of the said proposed corporation shall be

HOPKINS MANUFACTURING COMPANY

Second: The purposes for which said corporation is to be formed are as follows:

To manufacture, buy, sell, deal in and deal with hardware of all kinds, tools, implements, parts, appliances and appurtenances of every kind and nature.

To buy, sell, deal in and deal with any or all of the raw materials entering into the manufacture of tools, implements, hardware of all kinds and the like, whether iron, steel, brass, copper, lead, wood or other substance.

To erect, maintain and operate any and all factories, works, plants, stores, offices, ware-rooms, warehouses, depots or other structures necessary or convenient to the conduct of the business for the corporation as herein set forth.

To apply for, obtain, register, lease or otherwise acquire, and to hold, use, own, operate, and to sell, assign or otherwise dispose of any trade-marks, trade names, patents, inventions and processes used in connection with or secured under letters patent of the United States, or elsewhere or otherwise; and to use, exercise, develop, grant licenses in respect of, or otherwise turn to account the same or any of them.

To transact its said business in the State of New York and in such other states, territories,

countries or possessions as may seem advisable, and therein to acquire, own, hold, use and dispose of property both real and personal as may be necessary or advantageous for the prosecution of the business of the corporation as in this Certificate set forth.

Third: The amount of the capital stock of the said corporation shall be one hundred thousand dollars (\$100,000).

The amount of capital with which the said corporation will begin business is one thousand dollars (\$1,000).

Fourth: The number of shares of which said capital stock shall consist is one thousand (1,000) shares each of the par value of one hundred dollars (\$100).

Of said capital stock five hundred (500) shares of the par value of fifty thousand dollars (\$50,000) shall be cumulative preferred stock, entitled to an annual dividend of six per cent (6%) from the net profits of the corporation, payable semi-annually, on the 10th days of each and every January and July in each year, before any dividends are declared or paid on the common stock, and to share equally with the common stock in any excess paid in any one year upon all the stock over and above the rate of six per cent (6%), and in the event of the liquidation or dissolution of the corporation from any cause, said preferred stock shall be entitled to be paid in full from the assets of the corporation before any payment is made upon the common stock. The holders of such

preferred stock shall not be entitled to vote in any meeting of the stockholders or election of directors, but the entire voting power of the corporation shall be and hereby is vested in the common stock.

Of said capital stock five hundred (500) shares of the par value of fifty thousand dollars (\$50,000) shall be common stock of the corporation.

Fifth: The principal place of business of the said corporation shall be located in the Borough of Manhattan, in the City, County and State of New York.

Sixth: The duration of the said corporation shall be perpetual.

Seventh: The number of the directors of the said corporation shall be five, and it shall not be required that they be stockholders of the said corporation in order to entitle them to become eligible to or to hold such or other office in said corporation to which directors may be elected.

Eighth: The names and post-office addresses of the directors of the said corporation for the first year are as follows:

John W. Hopkins, 253 Broadway, New York City; Samuel J. Smith, 45 West 23rd St., New York City; Richard J. Brown, 267 Canal St., New York City; Howard Thompson, New Rochelle, N. Y.; Henry P. Truman, 97 Beaver St., New York City.

Ninth: The names and post-office addresses of the subscribers to this certificate, and a state-

ment of the number of shares of the capital stock of said corporation which each agrees to take are as follows:

Names	Addresses.	No. Shares Common Stock
John W. Hopkins,	253 Broadway, New York City....	4
Samuel J. Smith,	45 West 23rd St., New York City....	2
Richard J. Brown,	267 Canal St., New York City....	1
Howard Thompson,	New Rochelle, N. Y.....	2
Henry P. Truman,	97 Beaver St., New York City....	1

IN WITNESS WHEREOF, we have made and signed this certificate in duplicate, this 3rd day of March, 1921.

in the presence of	John W. Hopkins, (L. S.)
William J. Hall.	Samuel J. Smith, (L. S.)
	Richard J. Brown, (L. S.)
	Howard Thompson, (L. S.)
	Henry P. Truman, (L. S.)

State of New York

City and County of New York

ss.

On this 3rd day of March, 1921, before me, the undersigned, personally came and appeared John W. Hopkins, Samuel J. Smith, Richard J. Brown, Howard Thompson and Henry P. Truman, to me severally known and known to me to be the individuals described in and who executed the foregoing Certificate of Incorporation, and they duly severally acknowledged to me that they executed the same for the uses and purposes therein set forth.

William J. Hall,
Notary Public,
New York County,

Special Preferred Stock Provision.—In the above charter or certificate of incorporation, as it is called in New York, it will be noticed that provision is made for the holders of the preferred stock to share in dividends equally with the holders of the common stock, when each class shall have received dividends equal to six per cent. This provision is often made so that the preferred stock shall be a more inviting investment than would be possible where the returns are limited to just the six per cent and with no provision for even a contingent increase out of the extra earnings of the corporation.

Where a certain portion of the common stock is granted to the holders of the preferred, as a bonus, to induce their subscription to the preferred, if the preferred stock is limited to the fixed dividends, then these preferred stockholders have the same participation in the earnings of the corporation over such fixed rate as do the other holders of common stock only. It is in such cases as this that often the common stock of corporations becomes the most valuable and commands the highest price in the market.

Directors Not Being Stockholders.—In the above certificate of incorporation it will be noticed that the provision of the New York laws to the effect that directors shall not be required to

be stockholders of the corporation, if waived in the certificate, has been employed. If it is desired that they shall be stockholders in order to make them eligible to such office, then the "Seventh" paragraph should end after the statement as to the number.

New Jersey Charter.—In order to show to what lengths corporations may go in their charter provisions under the laws of New Jersey, that of the United States Steel Corporation is given. It is instructive in showing how the great corporation lawyers secure to their clients the widest possible range of corporate action, even transcending the rights of the corporation, were they to be exercised in the state of their incorporation.

AMENDED CERTIFICATE OF INCORPORATION

of

UNITED STATES STEEL CORPORATION

We, the undersigned, in order to form a corporation for the purposes hereinafter stated, under and pursuant to the provisions of the Act of the Legislature of the State of New Jersey, entitled "An Act Concerning Corporations (Revision of 1896)," and the acts amendatory thereof and supplemental thereto, do hereby certify as follows:

I.—The name of the corporation is

UNITED STATES STEEL CORPORATION

II.—The location of its principal office in the State of New Jersey is at No. 51 Newark Street, in the City of Hoboken, County of Hudson. The name of the agent therein and in charge thereof, upon whom process against the corporation may be served, is Hudson Trust Company. Said office is to be the registered office of said corporation.

III.—The objects for which the corporation is formed are:

To manufacture iron, steel, manganese, coke, copper, lumber and other materials, and all or any articles consisting or partly consisting of iron, steel, copper, wood or other materials, and all or any products thereof.

To acquire, own, lease, occupy, use or develop any lands containing coal or iron, manganese, stone or other ores, or oil, and any woodlands, or other lands, for any purpose of the company.

To mine or otherwise to extract or remove coal, ores, stone and other minerals and timber from any lands owned, acquired, leased or occupied by the company, or from any other lands.

To buy and sell, or otherwise to deal or to traffic in, iron, steel, manganese, copper, stone, ores, coal, coke, wood, lumber and other materials and any of the products thereof, and any articles consisting or partly consisting thereof.

To construct bridges, buildings, machinery, ships, boats, engines, cars and other equipment, railroads, docks, slips, elevators, water works,

gas works and electric works, viaducts, aqueducts, canals and other waterways, and any other means of transportation, and to sell the same, or otherwise dispose thereof, or to maintain and operate the same, except that the company shall not maintain or operate any railroad or canal in the State of New Jersey.

To apply for, obtain, register, purchase, lease or otherwise to acquire, and to hold, use, own, operate and introduce, and to sell, assign, or otherwise dispose of, any trademarks, trade names, patents, inventions, improvements and processes used in connection with or secured under letters patent of the United States, or elsewhere, or otherwise, and to use, exercise, develop, grant licenses in respect of, or otherwise turn to account any such trademarks, patents, licenses, processes and the like, or any such property or rights.

To engage in any other manufacturing, mining, construction or transportation business of any kind, or character whatsoever, and to that end to acquire, hold, own and dispose of any and all property, assets, stocks, bonds and rights of any and every kind, but not to engage in any business thereunder which shall require the exercise of the right of eminent domain within the State of New Jersey.

To acquire by purchase, subscription or otherwise, and to hold or dispose of stocks, bonds or any other obligation of any corporation formed for, or then or theretofore engaged in or pursuing any one or more of the kinds of business, pur-

poses, objects or operations above indicated, or owning or holding any property of any kind herein mentioned, or of any corporation owning or holding the stocks or the obligations of any such corporation.

To hold for investment, or otherwise to use, sell or dispose of, any stock, bonds or other obligations of any such other corporation, to aid in any manner any corporation whose stock, bonds or other obligations are held or are in any manner guaranteed by the company, and to do any other acts or things for the preservation, protection, improvement or enhancement of the value of any such stock, bonds or other obligations, or to do any acts or things designed for any such purpose; and, while owner of any such stock, bonds or other obligations, to exercise all the rights, powers and privileges of ownership thereof, and to exercise any and all voting-power thereon.

The business or purpose of the company is from time to time to do any one or more of the acts and things herein set forth, and it may conduct its business in other States and in the Territories and in foreign countries, and may have one office or more than one office, and keep the books of the company outside of the State of New Jersey, except as otherwise may be provided by law, and may hold, purchase or mortgage and convey real and personal property either in or out of the State of New Jersey.

Without in any particular limiting any of the objects and powers of the corporation, it is here-

by expressly declared and provided that the corporation shall have power to issue bonds and other obligations in payment for property purchased or acquired by it, or for any other object in or about its business, to mortgage, or pledge any stock, bonds or other obligations, or any property which may be acquired by it, to secure any bonds or other obligations by it issued or incurred, to guarantee any dividends or bonds or contracts or other obligations; to make and perform contracts of any kind and description; and in carrying on its business, or for the purpose of attaining or furthering any of its objects, to do any and all other acts and things, and to exercise any and all other powers which a copartnership or natural person could do and exercise, and which now or hereafter may be authorized by law.

IV.—The total authorized capital stock of the corporation is eleven hundred million dollars (\$1,100,000,000), divided into eleven million shares of the par value of one hundred dollars each. Of such total authorized capital stock five million five hundred thousand shares, amounting to five hundred and fifty million dollars, shall be preferred stock, and five million five hundred thousand shares, amounting to five hundred and fifty million dollars, shall be common stock.

From time to time the preferred stock and the common stock may be increased according to law, and may be issued in such amounts and proportions as shall be determined by the Board of Directors and as may be permitted by law.

The holders of the preferred stock shall be entitled to receive, when and as declared, from the surplus or net profits of the corporation, yearly dividends at the rate of seven per centum per annum, and no more, payable quarterly on dates to be fixed by the by-laws. The dividends on the preferred stock shall be cumulative, and shall be payable before any dividends on the common stock shall be paid or set apart; so that, if in any year dividends amounting to seven per cent. shall not have been paid thereon, the deficiency shall be payable before any dividends shall be paid upon or set apart for the common stock.

Whenever all cumulative dividends on the preferred stock for all previous years shall have been declared and shall have become payable, and the accrued quarterly installments for the current year shall have been declared, and the company shall have paid such cumulative dividends for previous years and such accrued quarterly installments, or shall have set aside from its surplus or net profits a sum sufficient for the payment thereof, the board of directors may declare dividends on the common stock, payable then or thereafter, out of any remaining surplus or net profits.

In the event of any liquidation or dissolution or winding up (whether voluntary or involuntary) of the corporation, the holders of the preferred stock shall be entitled to be paid in full both the par amount of their shares and the unpaid dividends accrued thereon before any amount shall be paid to the holders of the common stock; and,

after the payment to the holders of the preferred stock of its par value and the unpaid accrued dividends thereon, the remaining assets and funds shall be divided and paid to the holders of the common stock according to their respective shares.

V.—The names and post-office addresses of the incorporators, and the number of shares of stock for which severally and respectively we do hereby subscribe (the aggregate of our said subscriptions, being three thousand dollars, is the amount of capital stock with which the corporation will commence business), are as follows:

Name.	Post-Office Address	Number of Shares	
		Preferred Stock	Common Stock
Charles C. Cluff,	51 Newark St., Hoboken, N. J.	5	5
William J. Curtis,	51 Newark St., Hoboken, N. J.	5	5
Charles MacVeagh,	51 Newark St., Hoboken, N. J.	5	5

VI.—The duration of the corporation shall be perpetual.

VII.—The number of Directors of the company shall be fixed from time to time by the by-laws; but the number, if fixed at more than three, shall be some multiple of three. The Directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes, each consisting of one-

third of the whole number of the Board of Directors. The Directors of the first class shall be elected for a term of one year; the Directors of the second class for a term of two years, and the Directors of the third class for a term of three years; and at each annual election the successors of the class of Directors whose terms shall expire in that year shall be elected to hold office for the term of three years, so that the term of office of one class of Directors shall expire in each year.

The number of Directors may be increased as may be provided in the by-laws. In case of any increase of the number of the Directors the additional Directors shall be elected as may be provided in the by-laws, by the Directors or by the stockholders at an annual or special meeting; and one-third of their number shall be elected for the then unexpired portion of the term of the Directors of the first class, one-third of their number for unexpired portion of the term of the Directors of the second class, and one-third of their number for the unexpired portion of the term of the Directors of the third class, so that each class of Directors shall be increased equally.

In case of any vacancy in any class of Directors through death, resignation, disqualification or other cause, the remaining Directors, by affirmative vote of a majority of the Board of Directors, may elect a successor to hold office for the unexpired portion of the term of the Director whose place shall be vacant, and until the election of a successor.

The Board of Directors shall have power to

hold their meetings outside of the State of New Jersey, at such places as from time to time may be designated by the by-laws or by resolution of the Board. The by-laws may prescribe the number of Directors necessary to constitute a quorum of the Board of Directors, which number may be less than a majority of the whole number of the Directors.

Unless authorized by votes given in person or by proxy by stockholders holding at least two-thirds of the capital stock of the corporation, which is represented and voted upon in person or by proxy at a meeting specially called for that purpose or at an annual meeting, the Board of Directors shall not mortgage or pledge any of its real property, or any shares of the capital stock of any other corporation; but this prohibition shall not be construed to apply to the execution of any purchase-money mortgage or any other purchase-money lien. As authorized by the Act of the Legislature of the State of New Jersey, passed March 22, 1901, amending the 17th section of the Act Concerning Corporations (Revision of 1896), any action which heretofore required the consent of the holders of two-thirds of the stock at any meeting after notice to them given, or required their consent in writing to be filed, may be taken upon the consent of, and the consent given and filed by the holders of two-thirds of the stock of each class represented at such meeting in person or by proxy.

Any officers elected or appointed by the Board of Directors may be removed at any time by the

affirmative vote of a majority of the whole Board of Directors. Any other officer or employee of the company may be removed at any time by vote of the Board of Directors, or by any committee or superior officer upon whom such power of removal may be conferred by the by-laws or by vote of the Board of Directors.

The Board of Directors, by the affirmative vote of a majority of the whole Board, may appoint from the Directors an executive committee, of which a majority shall constitute a quorum; and to such extent as shall be provided in the by-laws, such committee shall have and may exercise all, or any of the powers of the Board of Directors, including power to cause the seal of the corporation to be affixed to all papers that may require it.

The Board of Directors, by the affirmative vote of a majority of the whole Board, may appoint any other standing committees, and such standing committees shall have and may exercise such powers as shall be conferred or authorized by the by-laws.

The Board of Directors may appoint not only other officers of the company, but also one or more Vice-Presidents, one or more Assistant Treasurers, and one or more Assistant Secretaries; and to the extent provided in the by-laws, the person so appointed respectively shall have and may exercise all the powers of the President, of the Treasurer and of the Secretary, respectively.

The Board of Directors shall have power from

time to time to fix and determine and to vary the amount of the working capital of the company; and to direct and determine the use and disposition of any surplus or net profits over and above the capital stock paid in; and in its discretion the Board of Directors may use and apply such surplus or accumulated profits in purchasing or acquiring its bonds or other obligations, or shares of its own capital stock, to such extent and in such manner and upon such terms as the Board of Directors shall deem expedient; but shares of such capital stock so purchased or acquired may be resold, unless such shares shall have been retired for the purpose of decreasing the company's capital stock, as provided by law.

The Board of Directors from time to time shall determine whether and to what extent, and at what times and places, and under what conditions and regulations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the stockholders, and no stockholder shall have any right to inspect any account or book or document of the Corporation except as conferred by statute or authorized by the Board of Directors, or by a resolution of the stockholders.

Subject always to by-laws made by the stockholders, the Board of Directors may make by-laws, and, from time to time may alter, amend or repeal any by-laws, but any by-laws made by the Board of Directors may be altered or repealed by the stockholders at any annual meeting, or at any special meeting, provided notice of such proposed

alteration or repeal be included in the notice of the meeting.

IN WITNESS WHEREOF, we have hereunto set our hands and seals the 23rd day of February, 1901.

Charles C. Cluff. (L. S.)

William J. Curtis. (L. S.)

Charles MacVeagh. (L. S.)

Signed, sealed and delivered

in the presence of

Francis Lynde Stetson.

Victor Morawetz.

(Acknowledgment)

Resident Agent.—The naming of a resident agent within the state where the incorporation is had, upon whom process against the company may be served, is one of the uniform requirements in all the states that are seeking incorporation of companies under the more or less liberal provisions of its laws.

A corporation organized under the provisions of the laws of any state is technically a resident of that state, and in the eye of the law cannot become absent therefrom. Hence, where it is understood that the residence (incorporation) is solely for the purpose of taking advantage of some attractive and liberal provision of the law regarding corporations, and that the business of

such corporation is to be transacted in another state, the requirement that there be at all times within the state of incorporation an agent to represent the corporation, and upon whom process may be served, is to preserve the fiction of law that the corporation can never be absent from the state, but at all times amenable to the process issued from its courts and to the provisions of its laws.

Business in Other States.—Where corporations are organized under the laws of states other than the one in which its principal business is to be transacted, it is customary, as in the case of the United States Steel Corporation, to state clearly in the charter that the corporation shall have the right to transact its business in other states.

Powers Prohibited in State of Incorporation.—The charter of the Steel Corporation affords an illustration of the authorization of the corporation to engage in lines of business even prohibited in the state of its incorporation, as the building, operation and conduct of railways, canals and the like, which may become necessary to the full and successful furtherance of its business. As to such powers there is an express provision that it shall not have the right to exercise them within the state. This does not mean that

New Jersey, for instance, can authorize a corporation organized under its laws, to carry on a business in another state contrary to the provisions of the laws of such other state, whether prohibited in New Jersey or not. The corporation is nevertheless subject to the provisions of statute in each and every state in which it shall do business, irrespective of its charter provisions and powers, for every state is the sole judge of what rights and powers and privileges a corporation shall have, as well as to the admission of foreign corporations to do business within its boundaries, and upon what terms and conditions such admission may be had.

If, for example, the charter right of the Steel Corporation to build and operate railroads and canals in other states than New Jersey be repugnant to the laws of the states in which the corporation might desire to exercise such powers, it would, undoubtedly be required to organize a separate, but subsidiary corporation under the transportation laws of such states, or otherwise conform to the provisions of local laws.

Offices and Books Outside State.—It will be noted that in the charter of the Steel Corporation provision is made for the maintaining of one or more offices without the State of New Jersey and to keep therein its books, but subject to the pro-

visions of the laws of New Jersey. In almost all of the states seeking the incorporation of companies from other states, provision is made that the corporation maintain an office in the state of its incorporation, and therein keep certain of its record books.

Classification of Directors.—The charter of the Steel Corporation gives a very carefully worked out illustration of the provisions for the classification of directors, so that but one-third of the board shall retire each year.

Limitations on Mortgages.—It will be noted that the Board of Directors is restricted in regard to placing any lien or incumbrance upon the property of the corporation except as authorized by vote of the stockholders at annual meetings or at special meetings, and then only provided that notice of the proposed incumbrance be included in the notice of the meeting.

Directors' Meetings Outside State.—In order to avoid any question as to whether directors' meetings shall be required to be held within the state of incorporation, in the foregoing charter it is expressly provided that such meetings may be held outside the State of New Jersey. Similar provisions should be made in all cases where corporations are organized under the laws of states other than where the business is to be conducted.

Appointment of Committees.—In most of the larger corporations, especially where there are a considerable number of directors and their attendance at meetings may not be readily had, charter provisions are made authorizing the board to appoint executive and other standing committees which shall have and exercise the powers of the whole board as to the special matters and duties prescribed in their appointment. In the smaller corporations this may not be necessary where the directors are the principal owners and regularly engaged in the conduct of its business, and therefore always available.

Directors' Control Over Surplus.—One of the fruitful sources of disagreement and dispute in regard to corporate finances is as to the disposition of the surplus earnings, and as to the rights of stockholders to have all, or if not, what portion set aside for dividends and so paid to them.

The expansion of a corporation is governed by the amount of its available working capital, and this may be increased only in one of two ways: either by the sale of additional stock, or by the application of its surplus earnings to such expansion. It is here that many stockholders feel that their rights to dividends to the extent of the net earnings of the corporation are impaired and infringed where all or a portion of such earnings

applicable to the declaration and payment of dividends are appropriated by the directors to the enlargement of the business of the corporation. The law reports are full of adjudicated cases bearing upon this question and with great uniformity, the acts of the directors, where shown to be within safe and reasonable limits, have been upheld.

In the case of the Steel Corporation, with its thousands of stockholders, so widely scattered, it was decided that all questions as to the right to control the use of surplus earnings, and to settle what proportion should be added to its working capital and what proportion, if any, should be set aside for dividends, should be delegated specifically to the board of directors, so that every stockholder would be bound, by the very acquisition of stock therein, to these provisions.

It is always considered the better practice to apply surplus earnings to the increase and development of a business than to raise additional capital, and thus reduce proportionately the interests of the present stockholders.

Inspection of Corporate Records.—In most of the states there are provisions as to the rights of stockholders to inspect the books and records of the corporation in which they own stock. This is because each stockholder is recognized, in a way, as a partner in the business, and thus en-

titled to know what is being done, and how the business of the corporation is being conducted.

With the growth of competition, it is becoming more and more vital to a corporation, as to any other business, that its plans, purposes and operations be kept from and not communicated to its rivals. It is a very common practice for those interested in one corporation to acquire, often through a dummy, shares in a rival corporation, and for the sole purpose of gaining, through the exercise of the rights of a stockholder, all the information possible as to what the plans, purposes, financial standing and other facts and conditions of such rival may be.

On the other hand, with a great number of stockholders, even though the inquiries be in good faith and for the personal information and satisfaction of the individual stockholders, it would easily be too great an interruption of the business of a corporation to permit unlimited inspection of its books and papers. Hence the various states have provided what shall be the rights and privileges of stockholders in regard to such inspection, and in the larger corporations a power, similar to that given the directors of the Steel Corporation, is given to the directors, but with the limitation that no such regulation of the board shall interfere with the statutory rights of

inspection granted by the statutes of the state wherein the corporation was organized.

Directors' Power to Amend By-Laws.—The power of the directors to alter, amend or repeal the by-laws of the corporation, as granted in the charter of the Steel Corporation, is one that should be exercised sparingly in smaller corporations. The by-laws are the fundamental basis of operation of the corporation, and in general, any change therein is a matter that vitally concerns the entire body of the stockholders. Where the stockholders can be readily gathered together, such right should be left entirely with that body. Even in the case of the Steel Corporation, the action of their Board of Directors is subject to the subsequent action of the stockholders at any annual or special meeting called for that purpose.

Illinois Charter.—Illinois is one of the states in which the organization of a corporation is made more formal and not consummated simply by the making and filing of a charter or certificate of incorporation, and accordingly the steps and forms used therein are given, that the difference may be more clearly seen.

Contract to Form a Corporation.—The first step in Illinois is the application to the Secretary of State for a "license to open books of subscription to the capital stock," etc., and for the ap-

pointment of commissioners who will complete the organization.

This application is known as the Contract to Form a Corporation, and is substantially as follows:

This Agreement, made this 5th day of March, A. D. 1921, by and between the undersigned, William H. Jones, George W. Farnsworth, John J. Donovan, Henry A. Smith, and Robert M. Fuller, all of the City of Chicago, in the County of Cook and State of Illinois, Witnesseth:

That in consideration of the mutual undertakings and agreements of the parties hereto, as hereinafter set forth, and in the further consideration of the sum of one dollar to each of the parties hereto in hand paid by the other at or before the execution of this agreement, the receipt whereof is hereby severally acknowledged, the said parties herto do hereby covenant and agree to and with each other as follows, to-wit:

First:—That a corporation shall be formed by as under the laws of the State of Illinois, substantially as follows:

(a) The name of the said corporation shall be the Dealers Mercantile Company.

(b) The capital stock of the said corporation shall be Two Hundred Thousand (\$200,000) Dollars, divided into two thousand (2,000) shares, each of the par value of One Hundred (\$100) Dollars, the said stock all to be Common Stock of uniform character and usual form.

(c) The purposes for which the said corporation is to be formed are the buying, selling, trading, dealing in and dealing with goods, wares and merchandise of all kinds, and in connection therewith to manufacture, or cause to be manufactured, all or any part of the goods, wares and merchandise in and with which the corporation may deal, as may be found to the best interests of the corporation to do.

(d) The said corporation shall have a Board of Directors of five in number, all of whom shall be stockholders of the corporation of record at the time of their election and during the continuance of their office as such.

(e) The officers of the said corporation shall be a President, Vice-President, Secretary, Treasurer and General Manager.

(f) The location of the principal business office of the said corporation is to be in the City of Chicago, in the County of Cook, in said State of Illinois.

(g) The duration of the said corporation shall be ninety-nine (99) years.

Second:—We hereby agree to and with each other that we will take the number of shares of the capital stock of the said corporation set opposite our respective names hereunto subscribed, and will pay to the commissioners duly appointed by the Secretary of State of the State of Illinois in that behalf, fifty (50%) per cent of the par value of the said shares so subscribed by us respectively at the time of holding the first meet-

ing of the said subscribers to elect a Board of Directors for the said corporation; and we further agree to pay the balance of our said several subscriptions as and whenever called upon so to do by the said Board of Directors of the said corporation after the same shall have been duly formed.

Third:—We further and do hereby nominate, constitute and appoint (.....) as our attorney and the attorney of the said corporation so to be formed, to create or cause to be created the said corporation in accordance with the provisions of the statutes of the State of Illinois and this agreement, and to do and perform all things necessary to bring the said corporation into legal existence; and we further hereby authorize and empower our said attorney to draw on the funds in the hands of the legally constituted officers or agents of the said corporation, for the necessary expenses attending said incorporation, and we further agree that any and all contracts which our said attorney may make in such matter shall be binding upon the corporation and also upon us jointly and severally.

IN WITNESS WHEREOF, we, the undersigned, hereby severally bind ourselves, our heirs, executors and administrators.

Name	Address	Shares	Amount
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The successive steps in completing the organization of corporations under the laws of Illinois will be taken up in the succeeding section.

SECTION 49—CORPORATIONS

COMPLETING THE ORGANIZATION

First Meeting of Incorporators.—After the charter or certificate of incorporation has been duly executed and filed in the office of the Secretary of State and any duplicates or certified copies thereof filed in any other necessary offices, and any required court orders secured, the next step is the holding of the first meetings of the incorporators, for the purpose of completing, so far as may be done by the incorporators, the organization of the company.

While this is the procedure in most states, yet there are some in which the procedure is practically reversed in that the election of the directors and officers and the adoption of the by-laws precedes the filing of the charter itself, and hence it is important to carefully study the statute requirements of the state selected for the incorporation, in order that the steps in completing the organization may be strictly followed. It must be remembered that a corporation is a creature of law, having no legal status save that arrived at in strict conformity to the laws of the state of its creation.

Notice of the Meeting.—The statutes of the different states provide for the giving of notice

to the incorporators of the first meeting, and specify the length of that notice, which should also contain a brief statement of the business in general to be conducted thereat, and the time and place at which it shall be held.

Waiver of Notice.—As the incorporators or their proxies are the only persons entitled to participate in such meeting, they are the only ones to whom notice is to be given. It is the general practice for the incorporators to sign a written waiver of such notice and to proceed with the holding of the meeting upon an agreed date. The courts have upheld the signing of such a waiver in lieu of the formal notice required by the statutes upon the ground that “the only persons interested in the result to be obtained by giving notice of the object, time and place of meeting of the subscribers to the capital stock of a corporation for the purposes specified in the statutes are the subscribers themselves,” and that, consequently, if all the subscribers or incorporators join in the signing of such a waiver of notice, and the meeting to organize is held in accordance with such waiver, the purpose of the statute has been accomplished.

Form of Waiver.—The following is the usual short form of waiver, where there is nothing to be done outside of the regular routine:

Call and Waiver of Notice

First Meeting of Incorporators and Stockholders

We, the undersigned, being all of the incorporators and stockholders of the Hopkins Manufacturing Company, do hereby call the first meeting of the incorporators and subscribers to the capital stock of the said corporation, to be held at the office of John W. Hopkins, No. 253 Broadway, in the Borough of Manhattan, in the City, County and State of New York, at 10 o'clock in the forenoon of the 11th day of March, 1921, for the purpose of completing the organization of said company, the adoption of by-laws and the transaction of all such other business as may be incidental to such completion of organization, and we do hereby expressly waive any and all requirements of statute as to the giving of notice of such meeting and consent to the transaction thereat of any and all business pertaining to the affairs of the company.

Dated New York City, N. Y., March 10, 1921.

	John W. Hopkins,
Samuel J. Smith,	Howard Thompson,
Richard J. Brown,	Henry P. Truman.

In states where the incorporators elect the first board of directors, notice of such election should be included in the "purposes" specified in the Call and Waiver.

In the case of the larger corporations and especially where there is important business to be

transacted such as the acquisition of property in exchange for the capital stock of the corporation, it is frequently desirable that a more formal and detailed Notice and Waiver be used, and substantially in the following form:

Call and Waiver of Notice

First Meeting of Incorporators and Stockholders

We, the undersigned, being all of the incorporators and stockholders of the Hopkins Manufacturing Company, entitled to notice of the holding of the first meeting of the incorporators and subscribers thereof, do hereby call the said first meeting of such incorporators and subscribers to the capital stock of the said corporation to be held at the office of John W. Hopkins, No. 253 Broadway, in the Borough of Manhattan, in the City, County and State of New York, at 10 o'clock in the forenoon of the 11th day of March, 1921, for the purpose of receiving the charter of the said corporation, adopting by-laws, considering and acting upon a proposition for the issue of the entire unissued and unsubscribed capital stock of the corporation in exchange for certain property, as more specifically set forth in the said proposal to be submitted to said meeting, and for the transaction of all such other business as may be necessary or advisable in connection with the completion of the business and affairs of the corporation, and we do hereby waive all statutory requirements as to notice or publication of the time, place and purposes of the first meeting, and do

consent to the transaction thereat of any and all business pertaining to the affairs of the company.

Dated New York City, March 10, 1921.

Signatures of all of the incorporators.

Call Without Waiver.—In cases where it is impossible to secure the waivers in writing of all of the incorporators, the notice of the time, place and object of the meeting must be given, following in such cases, the provisions of the statutes in that regard. If the statute prescribes a form for such notice, it must be used. If not, the notice must fix the time and place and state generally the business to be transacted. Such a notice would have to be signed by a majority of the incorporators. The meeting may be held at any convenient place in the city or town named as the place of the principal business office of the corporation, such as the office of one of the incorporators or the office of the attorney taking charge of the incorporation matters, should one be employed.

Proxies.—If any of the incorporators cannot attend the meeting, they can be represented by a proxy who may be one of the other incorporators or another person. Such a proxy usually differs from a general proxy for regular stockholders' meetings, in that it covers the organization meeting only. The usual form is as follows:

Proxy

First Meeting of Incorporators and Stockholders

I, the undersigned, an incorporator and a subscriber to the capital stock of the Hopkins Manufacturing Company, do hereby appoint Harvey L. Wilcox my true and lawful attorney, with full power of substitution and revocation, to represent me, and to vote in my name, place and stead at the first meeting of the incorporators and stockholders of said corporation, to be held at the office of John W. Hopkins, No. 253 Broadway, in the Borough of Manhattan, in the City, County and State of New York, at 10 o'clock in the forenoon of the 11th day of March, 1921, and at any adjournment thereof.

Witness my hand and seal this 9th day of March, 1921.

Witnessed by

Henry P. Truman.

James B. Russell.

Conduct of the Meeting.—In most cases, the conduct of the first meeting is largely, if not entirely formal, as the parties have undoubtedly come to agreement as to what shall be done, and the minutes of the meeting, including the proposed by-laws have usually been prepared and submitted in advance to those interested.

These matters are usually placed in the hands of the attorney who prepared the charter or certificate of incorporation, and he reads the minutes to the meeting, taking the assent of those pres-

ent as he proceeds. If one or more of the incorporators are familiar with corporate organization matters, then he virtually assumes charge of the meeting in much the same way.

Whether such a course be followed or whether the meeting acts upon its own initiative, the following steps are taken.

Opening the Meeting.—At the appointed time and place, providing a majority of the incorporators are present, one of their number calls the meeting to order and by vote, a chairman is selected to take charge of the meeting. At the same time a secretary of the meeting is appointed, usually by the chairman, if there be no objection.

The secretary then notes the names of the incorporators present and calls for the proxies of any who may not be present in person. If a majority of the incorporators are thus present and represented, the chairman announces the presence of such majority and states that the meeting is ready to proceed to the business for which it has been called.

Proof of Notice of the Meeting.—The Secretary should then call for evidence that the provisions of the statutes as to notice of the meeting have been complied with or the waiver thereof by all the incorporators. When the same are produced and found correct, they should be

ordered entered upon the minutes of the meeting and the originals filed with the secretary of the company. If publication is had, copies of the papers in which such notices appeared should be produced, and the certificate of any mailing of copies thereof that had been done or of personal service thereof, according to the procedure followed.

Reception of the Charter.—The chairman or the secretary of the meeting should next produce a copy of the charter or certificate of incorporation, and report as to the filing of the same in the office or offices required by law, as well as to any other acts necessary to give effect to it as the charter of the corporation. A motion should then be made to the effect that the charter or certificate of incorporation as presented and filed, be accepted or received as the charter of the company and spread upon the minutes of the meeting, as a part of the records of the meeting.

While it is not necessary that the copy of the charter presented to the meeting be a certified copy, yet it is more acceptable to those interested that it be thus authenticated by the Secretary of State.

In entering it and other documents upon the minutes of the meeting, it is considered the better practice to have the charter appear on the first

pages of the minute book and the other documents follow at the end of the minutes of the meeting than to scatter them in the body of the minutes themselves, as they are more readily found for reference if by themselves.

Adoption of By-Laws.—The next matter to be taken up is the adoption of the by-laws of the corporation. This is one of the most important parts in the organization of any corporation, as they constitute the internal law for the government and control of the corporation, and prescribe the powers and duties of the officers and affect the rights and privileges of stockholders.

While the widest latitude is permitted in the framing of the by-laws, yet their provisions may not contravene those of the charter itself nor the laws of the state in which the incorporation is had, nor be unjust, inequitable or against public policy.

In drafting by-laws it is advisable to include therein and as a part thereof the various provisions of the state law concerning the conduct of the business and affairs of corporations, for the proper guidance of the officers and directors. It is better that they be more complete than absolutely necessary, than that for the sake of brevity they omit matters that should be included to avoid mistakes or misunderstandings in the future.

For the purpose of saving time at the first meeting the proposed form of by-laws is prepared in advance, and are read by the secretary or other person designated by the chairman. Most frequently the by-laws are read, article by article, and then adopted as a whole, while in other cases each article is adopted, followed by the adoption of the by-laws as a whole at the close. While this is not a necessary formality, it is a wise course to follow, or at least to stop at the end of each article and give opportunity for the making of any suggested changes before proceeding to the next article. By following this plan every one of the incorporators is bound and precluded from making any subsequent objection to any matter therein.

Entering By-Laws Upon the Minutes.—Like all other matters coming before the meeting, the by-laws, in the form in which they are adopted, should be ordered spread upon the minutes in full.

Form of By-Laws.—While it will be recognized that no form of by-laws will meet all of the requirements of every corporation, and that changes must be made to conform to provisions of statutes in the different states and of the charter of the company, yet the following form covers the principal matters that should be embraced therein.

BY-LAWS
of
HOPKINS MANUFACTURING COMPANY.

ARTICLE I. STOCK

1. **Certificates of Stock** shall be in form approved by the Board of Directors, both as to Preferred and Common, clearly stating the rights and privileges of each class in relation to the other, and shall be numbered consecutively and issued in numerical order from the stock certificate book. They shall be signed by the President and Secretary, and be sealed with the corporate seal of the corporation. A record of each certificate issued shall be kept and entered upon the stub thereof.

2. **Transfers of Stock** shall be made only upon the books of the corporation, and before a new certificate is issued, the old certificate, properly endorsed, shall be surrendered. Surrendered certificates shall be cancelled and attached to their proper stubs in the stock certificate book. The stock books of the corporation shall be closed twenty days before general elections and ten days before dividend days.

3. **Lost Certificates.** The Board of Directors may order and direct that new certificates of stock be issued in place of any certificates of the corporation claimed to be lost or destroyed, and in connection with such new issue, may require that a bond or other security be given to the company not less than the par value of such lost or de-

stroyed certificates, as indemnity against any loss or claim that may be made upon the corporation by reason of the issue of such new certificates, and shall mark upon the stub of such lost or destroyed certificates the fact that they have been cancelled by reason of such loss, making reference to the new certificates issued in lieu thereof.

4. **Treasury Stock** of the corporation shall include such issued and outstanding stock of the company as may be acquired by purchase, donation or otherwise, and shall be held subject to disposal by the Board of Directors. Such stock shall neither vote nor participate in dividends while held by the corporation.

ARTICLE II. STOCKHOLDERS

1. **The Annual Meeting** of the stockholders of the corporation, for the purpose of electing directors and the transaction of such other business as may properly come before such meeting, shall be held at the principal office of the corporation in the Borough of Manhattan, in the City, County and State of New York, on the first Monday of March in each year, at two o'clock in the afternoon.

2. **Special Meetings** of the stockholders shall be held at the principal office of the corporation, and may be called by the President at his discretion, and must be called by him when so directed by resolution of the Board of Directors or when requested so to do in writing, by stockholders

owning and holding one-third of the issued and outstanding capital stock of the corporation.

3. **Notice of Meetings**, written or printed, for every regular or special meeting of the stockholders, shall be prepared and mailed to the last known post office address of each stockholder as shown by and appearing upon the stock books of the corporation, not less than ten days prior to such meeting. If such meeting be a special meeting, then the notice thereof, shall in addition to the other contents state the object or objects thereof, and no other business shall be transacted at any such special meeting save as specified in the notice. No notice need be given of adjourned meetings.

4. **A Quorum** at any meeting of the stockholders, save as may be otherwise prescribed by statute, shall consist of a majority of the voting stock of the corporation, represented in person or by written proxy filed with the Secretary. A majority of such quorum shall be necessary to decide any question coming before the meeting. If a quorum be not present at any duly called meeting, a majority of those present may adjourn the meeting from day to day, but until a quorum be present, may transact no business.

5. **Voting at Elections** of Directors shall be by ballot, and shall also be by ballot on any other matter submitted to a stockholders' meeting when so requested by not less than one-fourth in interest of the stockholders present at such meeting. Each stockholder shall be entitled to one vote for each share of stock held by him having

voting powers or privileges, and such vote may be cast in person or by proxy conferred in writing.

6. **The Election of Directors** shall be held at the annual meeting of stockholders and shall be conducted by two inspectors of election, appointed after the first election by the President.

7. **The Presiding Officer** at meetings of the stockholders shall be the President, or in his absence or disability, the Vice-President. In the absence or disability of both of these officers, a Chairman shall be chosen by the stockholders present who shall preside at such meeting. In the absence of the Secretary, the presiding officer shall appoint a Secretary *pro tem*.

8. **The Order of Business** at the annual meetings and as far as possible at all other meetings of the stockholders shall be:

1. Roll Call.
2. Reading and Disposal of Any Unapproved Minutes.
3. Annual Reports of Officers and Committees.
4. Election of Directors.
5. Unfinished Business.
6. New Business.
7. Adjournment.

ARTICLE III. DIRECTORS

1. **The Business and Property** of the corporation shall be managed by a Board of five Directors, who shall be (**not required to be—New York provision**) stockholders, and who shall be elected annually by ballot by the stockholders for the

term of one year, and shall serve until the election and qualification of their successors. (If the directors are to be classified, so that a certain proportion shall retire annually instead of the entire board, such provisions as correspond to those of the charter in that regard should be incorporated into this paragraph in lieu of the one year term above. Any vacancy occurring in the Board during the term, may be filled by the remaining members of the Board for the unexpired term. Directors shall receive no compensation for their services as such.

2. **The Regular Meetings** of the Board of Directors shall be held at the principal office of the corporation in the Borough of Manhattan, in the City of New York on the first Tuesday of each month at 2 o'clock in the afternoon, if not a legal holiday, but if a legal holiday, on the next succeeding day.

3. **Special Meetings** of the Board of Directors to be held at principal office of the corporation, in the City of New York, may be called at any time by the President, or by any three members of the Board, or may be held at any time and place without notice, by unanimous written consent of all the Directors or by the presence of all members at any such meeting.

4. **Notices** of both regular and special meetings of the Board shall be mailed by the Secretary to each member not less than three days prior to such meeting, and notices of special meetings shall state the purposes thereof. No failure or irregularity of notice of any regular meeting

shall invalidate such meeting or any of the proceedings thereat. No other business shall be transacted at any special meetings of the Board other than that specified in the notice thereof, unless by unanimous consent of all of the members of the Board. No notice shall be required to be given of adjourned meetings.

5. **A Quorum** at any meeting of the Board shall consist of a majority of the entire Board. A majority of such quorum shall be necessary to decide any matters coming before the meeting. If a quorum be not present at any duly assembled meeting, a majority of those present may adjourn the meeting from day to day until such a quorum be present, but may transact no other business until such quorum be present.

6. **Officers of the Corporation** shall be elected by ballot by the Board of Directors at their first meeting after the election of Directors each year. If any office becomes vacant during the year, the Board of Directors shall fill the same for unexpired term. The Board of Directors shall fix the compensation of the officers and agents of the corporation.

7. **Voting.** Each Director shall have but one vote upon all matters coming before the meetings of the Board.

8. **The Presiding Officer** at all meetings of the Directors shall be the President, or in his absence or disability, the Vice-President. In case of the absence or disability of both of these officers, the Directors present at any meeting shall appoint a Chairman who shall preside at such meeting. In

the absence of the Secretary, the presiding officer shall appoint a Secretary **pro tem**.

9. **The Order of Business** at any regular or special meeting of the Board of Directors shall be:

1. Reading and Disposal of Any Unapproved Minutes.
2. Reports of Officers and Committees.
3. Unfinished Business.
4. New Business.
5. Adjournment.

ARTICLE IV. OFFICERS

1. **The Officers of the Corporation** shall be a President, who shall be elected from the Directors, a Vice-President, a Secretary and a Treasurer, all of whom shall be elected for the term of one year, and who shall serve until their successors are duly elected and qualified. The Board may, in its discretion, elect a General Manager, who need not be a Director, for such term and upon such compensation and with such powers and duties as the Board may decide to be for the best interests of the corporation.

2. **The President** shall preside at all meetings, and shall have general supervision of the business and affairs of the corporation; shall sign or countersign all certificates, contracts and other instruments of the corporation as authorized by the Board of Directors or required by law; shall make reports to the Directors and stockholders and do and perform all such other duties as are inci-

dent to his office or as may be properly required of him by the Board. In the absence or disability of the President, the Vice-President shall have and exercise all of his duties, powers and functions.

3. **The Secretary** shall issue notices for all meetings of both stockholders and directors, and keep their minutes; shall have charge of the corporate seal and the corporate stock books; shall sign with the President all instruments and documents requiring such signature; shall make such reports and perform such other duties as are incident to his office or as are properly required of him by the Board of Directors.

4. **The Treasurer** shall have the care and custody of all moneys and securities of the corporation, and shall keep and maintain regular books of account and balance the same each month. He shall sign or countersign such instruments as require his signature; shall perform all duties incident to his office or that may properly be required of him by the Board of Directors. He shall, if required by the Board of Directors, give such bond as may be fixed, for the faithful performance of his duties, and with such sureties as the Board may determine.

ARTICLE V. DIVIDENDS AND FINANCE

1. **Dividends** shall be declared and paid only from the surplus profits of the corporation and at such times as the Board of Directors shall determine, and no dividends shall be declared that will impair the capital of the corporation.

2. **No Indebtedness** shall be contracted nor liability incurred, nor contract made by or on behalf of the corporation in excess of one thousand dollars, unless the same be authorized either by vote of a majority of the Board of Directors at a meeting of the Board, or by the written concurrence of such a majority, though not convened in a formal meeting.

3. **Disposition of Surplus Earnings** of the corporation shall be subject to the action of the Board of Directors, who shall have the right to decide whether all or what proportion thereof shall be set aside either for the declaration of dividends or for additions to the working capital of the corporation, or for both.

4. **The Moneys** of the corporation shall be deposited in the name of the corporation in such bank or banks as the Board of Directors shall from time to time decide, and the same shall be drawn out and paid only by the check of the corporation, signed by the Treasurer and countersigned by the President.

ARTICLE VI. SEAL

1. **The Corporate Seal** of the corporation shall consist of two concentric circles between which shall appear the name of the corporation, and in the center there shall be subscribed, "Incorporated, 1921, New York," and such seal as impressed upon the margin thereof, is hereby adopted as the Corporate Seal of the corporation.

ARTICLE VII. AMENDMENTS

1. **These By-Laws** may be amended, repealed or altered in whole or in part, by a majority of the entire issued and outstanding capital stock of the corporation (**“possessing voting powers and privileges”**—provided there be an issue of **non-voting preferred stock**) at any regular meeting of the stockholders, or at any special meeting where notice of such proposed action has been given in the call for such meeting.

2. **Necessary Additional By-Laws** not repugnant to, but in conformity hereto, may be passed from time to time by the Board of Directors, as may be required in their judgment, to facilitate the business of the corporation, but subject to the action of the stockholders at any subsequent meeting thereof. But such power shall not extend to the amendment, alteration or repeal of the By-Laws by the Board.

Election of Directors.—In the States where the Directors are not named in the charter or certificate of incorporation, their election by the incorporators should properly follow the adoption of the By-Laws. In New York and some other States, being named in the certificate of incorporation, no action by the incorporators is necessary, for the Board is already in existence, and the adoption of the By-Laws by the incorporators and the transaction of such other business as may come before the meeting of the incorporators, provides a fully organized corporation, over

whose activities the Board is qualified to act as soon as it shall have elected its officers.

Where the Directors are to be elected by the incorporators, it is customary, and in some States necessary, that the election be by ballot and under the supervision of tellers or inspectors of election, usually two in number, either appointed by the presiding officer or as specified in the statutes. The election should always be by ballot, irrespective of statutory provision.

Where there is no opposition, after the respective nominations are made and seconded, the secretary of the meeting may be authorized to cast the ballot of the incorporators present for the officers thus nominated, and so save time and detail. But as has been intimated, such a motion that the secretary cast the ballot of the meeting must be by unanimous vote, for a single negative vote makes it necessary for individual ballots to be taken.

The result of the election, and the manner in which the vote was taken, and whether by individual ballot or by that of the secretary on motion unanimously carried, must be spread upon the minutes of the meeting.

Issue of Stock for Property.—Under the statutes of nearly all of the States, the Board of Directors is the proper and final authority to conclude

a purchase of property for the uses and purposes of the corporation, where the same is to be paid by an issue of its capital stock. But among corporation lawyers it is deemed the better practice to have the proposal first submitted to the meeting of the stockholders and there acted upon by them, and if they approve, then to refer it to the Directors with their recommendation, leaving the final decision with the Directors, inasmuch as the statutes generally provide that it is the duty of the Directors to declare that the property is useful and necessary for the purposes of the corporation and of the fair and reasonable value asked therefor.

In submitting the matter to the stockholders, their action, especially if unanimous, precludes any participant in the meeting from later objecting to the transaction.

Where such action is taken, the matter usually comes in the form of a written proposal, accompanied with such authentication and verification as will permit the meeting to act intelligently upon the matter, and after it is read, discussion usually follows, and a resolution passed approving the transaction and referring it to the Directors for their final decision, and acceptance, provided, in their judgment the property is of the fair value asked.

The proposal and the substance of the accompanying data, together with the action of the stockholders, should be spread upon the minutes of their meeting, in order that those present and participating may be bound by the record of the proceedings had.

Other Business.—In most cases there will be other business to be brought before the first meeting of the incorporators, depending upon the circumstances peculiar to each. Careful reference to the statutes of the State at the time of incorporating should be had to ascertain whether there are any other matters that require action at the first meeting of incorporators. Laws are constantly changing, and the safe method is to consult them as they stand at the time of proceeding under them, and not rely upon their former requirements and provisions.

In general, where there exists any doubt as to the power and authority of the Board of Directors to do or perform a certain act, the matter can safely be taken up at the meeting of the stockholders and by them referred to the Directors with power to proceed according to their judgment after investigation. In this way the action of the Directors is fortified by that of the general body of the stockholders.

But in ordinary routine matters, it should be

remembered that the Directors have charge of the management of the business and affairs of the corporation, for which purpose they are elected, and that unnecessary action by the stockholders might only embarrass the Board in their action.

FORM OF MINUTES OF FIRST MEETING OF INCORPORATORS

The following will serve as a guide in most cases as to the form in which the minutes of the first meeting of incorporators should be prepared and as to what they should contain:

HOPKINS MANUFACTURING COMPANY Minutes of First Meeting of Incorporators, Held March 11, 1921.

Pursuant to written call and waiver of notice signed by all the incorporators, the first meeting of incorporators and stockholders of the Hopkins Manufacturing Company was held at the office of John W. Hopkins, No. 253 Broadway, in the Borough of Manhattan, in the City, County and State of New York, on the 11th day of March, 1921, at 10 o'clock in the forenoon.

There were present in person:

John W. Hopkins,
Samuel J. Smith,
Richard J. Brown,
Howard Thompson.

There was present by proxy:

Henry P. Truman, to Harvey L. Wilcox.

Mr. Samuel J. Smith called the meeting to order and on motion, Mr. John W. Hopkins was elected Chairman and Mr. Howard Thompson was appointed Secretary of the meeting.

The Secretary presented and read the call and waiver of notice of the meeting, pursuant to which the same was held, and on motion it was ordered entered in the minute book following the minutes of this meeting.

The proxy of Mr. Henry P. Truman appointing Harvey L. Wilcox his representative was presented, and no objection being made, same was ordered entered in the minute book following the waiver of notice of the meeting.

The Chairman presented a certified copy of the Certificate of Incorporation and stated that the original had been filed and recorded in the office of the Secretary of State of the State of New York, at Albany, N. Y., on the 7th day of March, 1921, and a duplicate original thereof had also been filed in the office of the Clerk of the County of New York on the 9th day of March, 1921. On motion, duly seconded and carried, the same was accepted as the charter of the corporation and was ordered spread upon the minute book preceding the minutes of this meeting.

The Secretary then presented a proposed form of By-Laws, which was read and adopted, article by article, and also in its entirety, and was on motion ordered entered in the minute book, following the call and waiver of the meeting.

(Where Directors are elected at the meeting.)

The Chairman announced that the next business in order was the election of five Directors as provided in the Certificate of Incorporation and the By-Laws, and thereupon appointed Messrs. Charles M. Moulton and Alfred B. Holmes to be Inspectors of Election. Said Inspectors were duly sworn and proceeded to open the polls and receive ballots. All the stockholders entitled to vote at said election having voted in person or by proxy (or, the Secretary, on motion duly made and unanimously carried, being instructed to cast the ballot of the stockholders present in person or by proxy, in favor of the nominees), the polls were closed, and the Inspectors presented their report that the ballots were cast as follows:

For Directors.	Votes.
John W. Hopkins.....	10
Samuel J. Smith.....	10
Richard J. Brown.....	10
Howard Thompson.....	10
Henry P. Truman.....	10

The above were thereupon declared the duly elected Directors of the corporation. It was ordered that the oath and report of the Inspectors be entered in the minute book, following the entry of the By-Laws.

In pursuance of the instructions of the foregoing minutes, the following instruments are entered in the minutes:

Preceding the minutes:
Certificate of Incorporation.

Following the minutes:

Call and Waiver of Notice.

Proxy of Henry P. Truman.

By-Laws.

(Oath and Report of Inspectors of Election.)

HOWARD THOMPSON,

Secretary.

Inspectors of Election.—In New York and New Jersey it is required that Inspectors of Election be appointed. In New York it is necessary that their oath and report, or certificate, as it is called, be filed in the office of the County Clerk. In New Jersey they need not be sworn nor is their report required to be filed. Most States do not require that such Inspectors be appointed, but it is usually done as the safer course.

Payment of Subscriptions.—In certain States, New Jersey, for example, thirty days' notice must be given before a corporation can enforce payment of subscriptions to the capital stock. In such States it is customary to include in the minutes, a waiver of notice of assessments and an agreement to pay, as and according to call of the Directors. In Illinois, fifty per cent of the subscription must be paid to the "commissioners" at the time of the organization and the balance as called by the Directors.

First Meeting of Directors.—Following the

first meeting of the incorporators comes that of the Directors. It is usually held immediately following that of the incorporators and at the same place, although that is not required. The same procedure in calling the meeting is followed as in the case of that of the incorporators. Either a majority of the Directors unite in a call for the meeting, fixing the time, place and stating the purposes, or the more customary procedure is followed of having all of the Directors sign a waiver of notice.

FORM OF WAIVER

Call and Waiver of Notice—First Meeting of Directors

We, the undersigned, being all of the Directors of Hopkins Manufacturing Company, do hereby call the first meeting of its Directors to be held at the office of John W. Hopkins, No. 253 Broadway, in the Borough of Manhattan, in the City, County and State of New York, March 11, 1921, at 2 o'clock in the afternoon, for the purpose of electing officers of the company (if property is proposed to be purchased, add; acting upon a proposition for the purchase of certain business and property payable in the preferred and common stock of the corporation), and for the transaction of all such other business as may be necessary or desirable in connection with the completion of the organization of the company and the

promotion of its business, and we do hereby waive any and all statutory and by-law requirements as to the notice of the time, place and purposes of such first meeting, and do hereby consent to the transaction thereat of such business as may come before the meeting pertaining to the business and affairs of the company.

Dated, New York City, March 11, 1921.

JOHN W. HOPKINS,
SAMUEL T. SMITH,
RICHARD J. BROWN,
HOWARD THOMPSON,
HENRY P. TRUMAN.

Opening the Meeting.—The same proceedings are followed in organizing the first meeting of the Directors as in the first meeting of the incorporators. A majority of the Directors appearing at the time and place appointed for holding the meeting, one of their number calls the meeting to order and a temporary chairman and secretary are named.

Proof of Notice of the Meeting.—The Secretary should call for proof of the call for the meeting or the waiver thereof signed by all the Directors, and if found correct, should be ordered entered upon the minutes of the meeting. Roll call should then be had to determine the names of those present and that they constitute a

quorum or a majority of the Board. These steps taken, the meeting is ready to proceed.

Election of Officers.—The Chairman should present the By-Laws adopted by the meeting of the incorporators and state that the first business was the election of the officers of the corporation as therein provided. Whether so specified in the By-Laws or not, the election should be by ballot.

After the nominations are made and seconded, if there be not more than one nomination for each office, it is both proper and customary for the Secretary, on motion, to be instructed to cast the ballot of the meeting for the officers thus nominated. If there be more than one nomination for a single office, separate ballots must be taken. In the case of separate ballots being taken, the Chairman should appoint two tellers to receive and count the votes and announce the result.

Permanent Officers Take Charge.—As soon as the result of the election is announced, the newly-elected President and Secretary take charge of the meeting and conduct it from then on. If either or both are absent the temporary officers continue on through the meeting. If, as in New Jersey, the Secretary is required to be sworn, his oath should at once be administered, so as to

qualify him to act from his election, and such oath entered upon the minutes of the meeting.

Treasurer's Bond.—If the Directors decide that the Treasurer should give a bond for the faithful performance of his duties, the same should be arranged and executed with such sureties and in such amount as may be directed, and filed with the Secretary, so that he may be duly qualified to act in that capacity. In most cases, where such a bond is required, it is arranged that a surety company furnish the same at the expense of the corporation.

Adoption of Stock Certificate Forms.—In some states it is provided that the stock certificates shall be in form as prescribed by the Directors, and irrespective of such requirement, it is advisable that the Directors so act, that there may be no doubt as to the proper form thereof. It is customary for the proposed forms to be submitted to the meeting, even if they have been already informally agreed upon in advance and the certificates printed, and to have their form adopted by the Directors and entered upon the minutes. After their form has been agreed upon the Secretary should be authorized to procure them in bound book form, together with the seal of the corporation, minute books and other necessary books, records, stationery, etc.

Financial Provisions.—Resolutions should be passed designating the bank or banks in which the corporate funds be deposited, and providing for their withdrawal in conformance to the requirements of the by-laws as to signature and counter-signature, a copy of which resolution should be furnished each bank, certified by the secretary, and the signatures of the officers who are to sign such checks.

If additional funds are to be raised, a resolution should provide that subscriptions be opened for the stock of the corporation to the extent determined, fixing the terms of payment and any other matters in that regard.

Miscellaneous Provisions.—In most cases there will be a number of miscellaneous matters to be disposed of at the first meeting, such as the selection of officers for the corporation, executing leases, the organization of the office and sales forces, the appointment of state agents and offices where the corporation is organized in a state other than the one where its principal business is to be conducted.

If all these matters cannot be consummated in one day, it is customary to adjourn the meeting, so as to keep it alive until all matters are disposed of.

Upon the consummation of this first meeting of

the directors, the corporation is fully organized and ready to proceed to carry on the business for which it was created.

FORM OF MINUTES OF FIRST MEETING OF DIRECTORS

The form of minutes here given will indicate the usual matters coming up at first meetings of directors, and can be modified to meet most cases.

HOPKINS MANUFACTURING COMPANY

Minutes of

First Meeting of Directors

Held March 11, 1921.

Pursuant to written call and waiver of notice signed by all of the directors, the first meeting of the board was held at the office of John W. Hopkins, No. 253 Broadway, in the Borough of Manhattan, in the City, County and State of New York on the 11th day of March, 1921, at 2 o'clock in the afternoon.

Mr. Samuel J. Smith called the meeting to order and on motion, Mr. John W. Hopkins was elected temporary chairman and Mr. Howard Thompson was appointed temporary secretary.

There were present Messrs. John W. Hopkins, Samuel J. Smith, Richard J. Brown, Howard Thompson and Henry P. Truman, constituting the entire membership of the Board.

The Secretary presented and read the call and waiver of notice of the meeting, pursuant to which the same was held, and on motion it was ordered entered upon the minute book following the minutes of this meeting.

The Chairman then presented the By-Laws adopted by the stockholders at their first meeting and stated that the first business thereunder was the election of a President, Vice-President, Secretary and Treasurer, to serve for the ensuing corporate year and until the election and acceptance of their successors. The following officers were thereupon elected by unanimous vote:

President.....	John W. Hopkins
Vice-President.....	Samuel J. Smith
Secretary	Howard Thompson
Treasurer.....	Henry P. Truman

The permanent officers thereupon took charge of the meeting (where necessary for the secretary to be sworn, add, "the Secretary-elect having first been duly sworn.")

On motion duly seconded and carried, the bond of the Treasurer was fixed at \$5,000, and the Treasurer, in compliance with such action, presented a bond in that amount signed by himself as principal and the Officials' Indemnity Company of New York City, as surety, which was thereupon approved by the Board as to form and surety, and ordered received and filed in the custody of the Secretary.

(Where no bond is required, state "On motion

duly seconded and carried, no bond shall be required of the Treasurer until further action by the Board.)

The Secretary then presented for approval forms of stock certificates for preferred and common stock, and the same were, on motion adopted as the stock certificates of the corporation, and ordered spread upon the Minute Book following the minutes of this meeting.

On motion duly made, seconded and unanimously carried it was RESOLVED that the corporation lease the building at No. 129 Clearwater Avenue, New York City, now occupied by John B. Gibson, as its plant, factory and offices, at a rental of not more than \$250 per month, either by new lease from the owners or by assignment of the present lease held by Mr. Gibson, and that the regular meetings of the Board be held thereat unless otherwise directed.

Upon motion duly made, seconded and carried, it was

RESOLVED, That the Treasurer be and he hereby is instructed to open an account for and in the name of the corporation in the Mercantile Commercial Bank of the City of New York, and to deposit therein all funds of the corporation coming into his possession, the same to be withdrawn only on check of the corporation signed by the Treasurer and countersigned by the President.

The following motions were adopted unanimously:

That the Secretary be instructed to have books of the stock certificates in form approved by the Board prepared and to procure the corporate seal and any and all other books, records, stationery and office supplies as are now necessary for the uses of the corporation.

That the Treasurer make payment of the cost and expenses in connection with the incorporation and organization of the company.

That the Treasurer purchase such books of account as may be required for the proper record of the company's business.

(It is proper to fix the salaries of the officers by action of the Board. Any other matters coming before should be disposed of by motion.)

There being no further business to come before the meeting, on motion, the same was adjourned.

HOWARD THOMPSON,
Secretary.

JOHN W. HOPKINS,
President.

In pursuance of the instructions of the foregoing minutes, the following instruments are entered in the order given:

Call and Waiver of Notice.

Secretary's Oath (Where required by law).

Forms of Stock Certificates.

Certificate of Election of Officers (Where required).

HOWARD THOMPSON,
Secretary.

Illinois Procedure.—In Illinois, after receipt of the “application,” so called, the Secretary of State issues a “license to open books of subscription,” which authorizes the parties named to complete the organization by having the stock subscribed for according to law, to give notice to subscribers of the holding of the meeting to elect directors, etc. Such notice of the first meeting is required to be mailed to each subscriber at least ten days prior to the meeting, but the usual course is for all of the subscribers to sign a waiver, which is held sufficient, fixing therein the time, place and purposes of the meeting.

Subscriptions Paid to Commissioners.—All subscriptions to the capital stock must be paid to the “commissioners” named in the license, whether cash or property, and to the extent of fifty per cent of the authorized capital prior to the completion of the organization of the company. In order for both the commissioners and the directors of the corporation to escape liability in accepting property in lieu of cash great care must be taken in fixing the value of the property by appraisal and inventory, and a full record of their proceedings should be entered in the Minute Book for their protection.

Meeting of Subscribers.—The same formalities as to the opening and conduct of the first

meeting of the subscribers should be followed as in other states. The number of directors is fixed at this meeting, and corresponds to the number stated in the "application." Directors may be classified so that the terms of only a portion shall expire any one year.

Report and Certificate of Organization.—A report in proper form of these proceedings is prepared and forwarded to the Secretary of State, who issues and forwards to the "commissioners" a certificate of complete organization, which must be recorded in the office of the Recorder of Deeds of the county wherein the corporation has its principal office before the corporation can proceed further.

Completion of Organization.—Upon the recording of the certificate, the by-laws are adopted, officers elected and the Board of Directors takes over from the "commissioners" the payments made to them on account of subscriptions and passes upon any action of the "commissioners" in accepting property in lieu of cash, makes its own appraisal and passes its own resolutions regarding its value, etc., all of which are evidenced by proper entries in the minute books and by spreading upon the record all proposals, appraisals and other data upon which they arrived at their conclusion.

The other customary resolutions as to form of stock certificates, deposits of corporate funds, offices, payment of expenses, salaries, etc., are followed out as in organizations held under the laws of other states.



